Dayton Hudson Corporation

1996 Annual Report

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Our one priority entering fiscal 1996 was to improve the financial performance of Dayton Hudson. Our results for the year reflect our successful efforts to achieve higher returns for our shareholders. As we look forward to 1997 and beyond, we are optimistic that we will build on this performance and can achieve annual earnings per share growth of 15 percent or more over time.

About the Company

Dayton Hudson Corporation, America's fifth largest general merchandise retailer, is committed to being a premier growth company and corporate citizen. Each of our operating companies strives to be a major force in its geographic markets, retail category and customer segment.

Target, which generated 70 percent of our revenues, is an upscale discount chain of 736 stores in 38 states, providing quality merchandise at low prices in guest-friendly stores.

Mervyn's, which contributed 17 percent of our revenues, is a middle-market promotional department store emphasizing name-brand apparel, and domestics and housewares through 300 stores in 16 states.

Department Store Division, which produced 13 percent of our revenues, offers trend leadership, quality merchandise and superior service through 65 Dayton's, Hudson's and Marshall Field's stores in nine states.

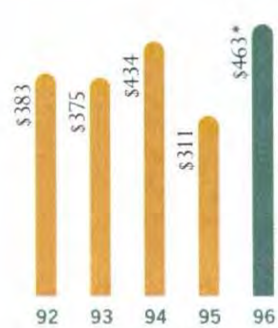
Financial Highlights

(Millions of Dollars, except Per Share Data)

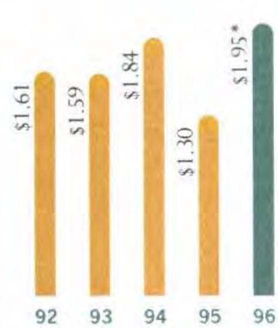
For the Year	1996	1995	Change
Revenues	$25,371	$23,516	8%
Net earnings	$ 463*	$ 311	49%
Fully diluted earnings per share	$ 1.95*	$ 1.30	50%
Cash dividends declared per share	$ .63	$ .59	7%
At Year-end			
Common shares outstanding	217,205,226	215,894,520	
Retail square feet	117,989,000	109,091,000	
Number of stores	1,101	1,029	

* Net of a pre-tax real estate repositioning charge of $134 million ($81 million after-tax), or 35 cents per share; and an after-tax extraordinary charge for debt repurchase of $11 million, or 5 cents per share.

Revenues
(millions)



Net Earnings
(millions)

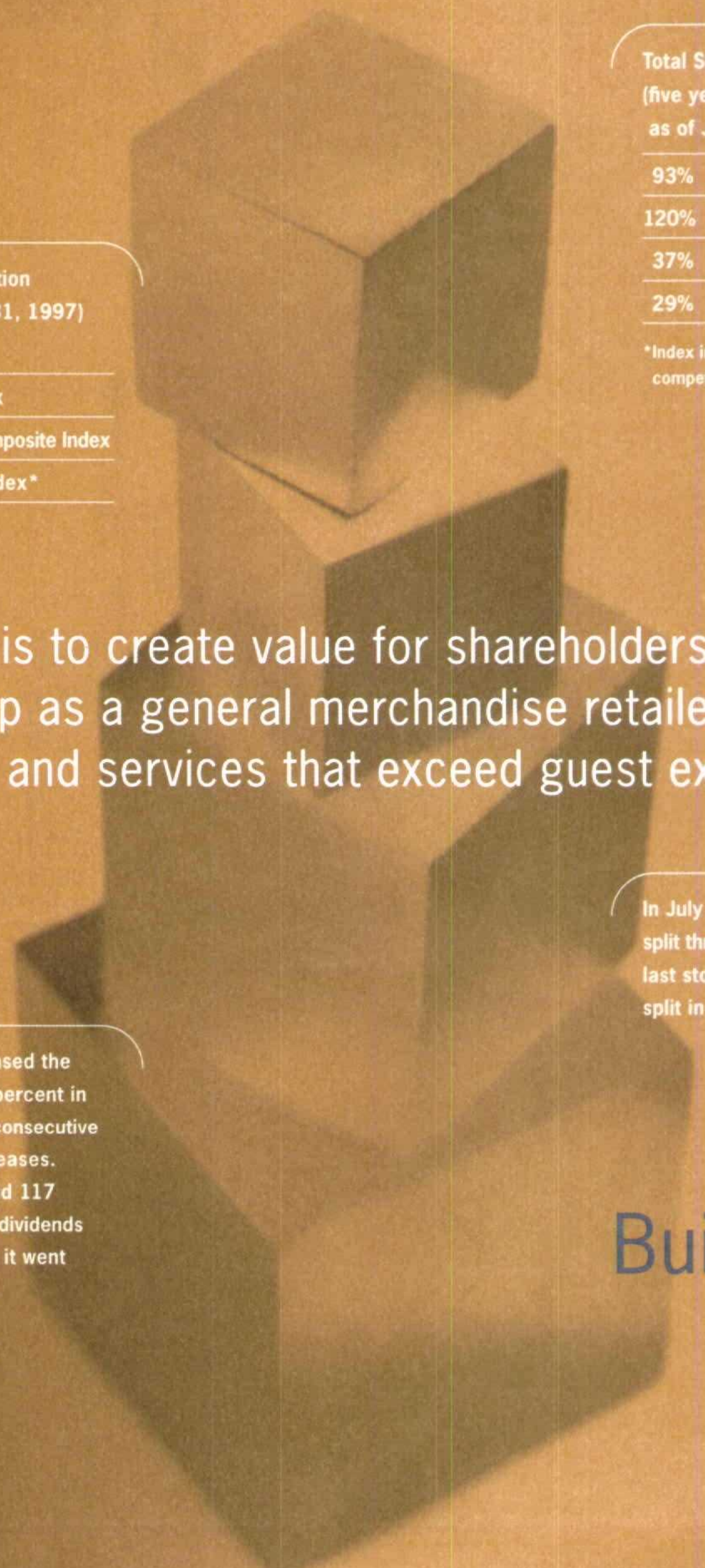


Earnings per Share
(dollars)

Total Shareholder Return (five year cumulative as of Jan. 31, 1997)	
93%	DHC
120%	S&P 500 Index
37%	S&P Retail Composite Index
29%	Peer Group Index*

*Index includes DHC and its major retail competitors and excludes food retailers

Share Price Appreciation (one year as of Jan. 31, 1997)	
52%	DHC
24%	S&P 500 Index
18%	S&P Retail Composite Index
21%	Peer Group Index*



Our goal is to create value for shareholders through our leadership as a general merchandise retailer that offers products and services that exceed guest expectations.

In July 1996 the company's stock split three-for-one. Dayton Hudson's last stock split was a two-for-one split in July 1983.

Dayton Hudson increased the quarterly dividend 7 percent in fiscal 1996, the 25th consecutive year of dividend increases. The company has paid 117 consecutive quarterly dividends to shareholders since it went public in 1967.

Building Shareholder Value

To Our Shareholders:

Last year, we committed ourselves to improve the financial performance of this company. Our efforts were very successful in 1996.

- Revenues exceeded $25 billion.
- We reported record operating profit, net income and earnings per share for the year.
- We reduced our debt leverage to the midpoint of our target range.
- We achieved a record stock price.

We are proud of the progress we made in 1996 and believe that we are well positioned to build on this performance in 1997 and beyond. In each of our operating divisions, we have now fully implemented strategies that allow us to enhance guest satisfaction and compete effectively in our respective markets. We also remain committed to the "Power of One," continuing to capitalize on operating synergies among our divisions and to leverage the resources of the total corporation. Together, these efforts give us the confidence that we can achieve annual earnings per share growth of 15 percent or more over time and, as a result, create substantial value for our shareholders.

Target

In 1996, Target generated industry-leading comparable-store sales growth and achieved record operating profit of more than $1 billion. At the same time, Target expanded its presence with new stores in both existing and new markets. During the year, Target made its entry into a number of mid-Atlantic and Northeast markets, including Buffalo, New York; Richmond, Virginia; Baltimore, Maryland; and the District of Columbia metropolitan area. These markets, as well as others in this region, provide Target with exciting opportunities for future growth because of the dense population and ideal income demographics of potential guests. In addition, Target's success in recent years in entering new markets, such as Chicago and Cleveland, gives us confidence in Target's ability to continue to gain market share quickly and meet our overall profit objectives, while growing square footage at about 10 percent annually.

Target's ongoing financial success stems from our strategic differentiation. Target distinguishes itself from other discounters by providing its guests with quality, trend-right merchandise, superior service, a convenient shopping experience and competitive prices. The Target Guest Card, a proprietary credit card with more than five million holders at year-end 1996, provides another compelling reason for guests to shop at Target. It is a significant business for us and also contributes to increased operating profit through incremental sales.

In 1996, Target initiated a three-year program to remove expenses that do not contribute to serving our guests. Specifically, the program is designed to reduce Target's operating expense rate by eliminating $200 million or more of expenses by year-end 1998. In 1996, Target completed the first phase of this initiative and eliminated more than $60 million from its expense structure. Savings of a similar amount are expected in 1997 and 1998.

To remain a leader in the discount industry and deliver even more profitability in future years, Target will continue to pursue strategic growth opportunities, distinguish itself from the competition and focus on reducing costs. We are confident that these strategies — executed well — position Target for continued growth in the years ahead.

Mervyn's

Mervyn's substantially improved its profit performance in 1996 and reported the highest operating margin among Dayton Hudson's divisions. This strong financial recovery is attributable to a revamped merchandising and marketing strategy and an aggressive expense reduction program. The strategy includes offering more brand names, paring assortments to provide a more focused merchandise presentation, intensifying promotional activity and redirecting our advertising resources to increase effectiveness. In short, we have given our guests more reasons to shop at Mervyn's.

Mervyn's initiated other actions in fiscal 1996 to strengthen our business and fortify our competitive position in our primary markets. In January 1997, Mervyn's announced plans to exit the Florida and Georgia markets, where we had limited penetration. We also announced our plan to sell or close approximately 10 additional underperforming stores throughout the chain.

In 1997, one of our top priorities is to generate profitable sales growth at Mervyn's and restore top-line performance to industry-average levels. In addition, we expect Mervyn's to make further progress toward its goal of achieving at least a 7 percent operating profit margin. To lead these efforts, we recently named Bart Butzer as president of Mervyn's. Bart's retail experience and strong leadership make him well-suited for this position.

Department Store Division

As we indicated when the year began, 1996 was a year of transition for our Department Store Division. Our goal was to return Dayton's, Hudson's and Marshall Field's to their heritage as fine department stores and reclaim their position as the pre-eminent department store franchise in our upper Midwest markets. To achieve this objective, we implemented a strategy to expand our assortment of "better" and unique merchandise, to reduce the number of storewide promotional days and to improve guest service by increasing staffing levels in key merchandise areas throughout our stores.

In addition to this strategic repositioning, the Department Store Division also initiated several efforts during 1996 to consolidate and strengthen its position in the marketplace. We announced the disposition of our four Marshall Field's stores in Texas in order to focus resources on our core Midwest markets. To enhance our market share in these markets, we also opened one new Hudson's store in Detroit, one new Dayton's store in the Twin Cities and two Marshall Field's home-furnishing stores in Chicago. In 1997, we will open two traditional full-line department stores — one in Michigan and one in Ohio.

We believe that the changes we are making at our Department Store Division are appropriate and necessary to achieve our longer-term operating margin objective of 9 percent or greater.

Integral to these efforts is a substantial cost-reduction program, similar to initiatives implemented at Target and Mervyn's in the past year. As with our other two divisions, we are focusing on eliminating expenses in areas that do not affect guest service.

We believe that we are now positioned to deliver substantially improved financial results at the Department Store Division in 1997 and beyond.

Credit

Internal credit is an important part of our retail operations and was a significant contributor to our earnings growth in 1996. Greater profitability was driven by continued expansion of the Target Guest Card, increases in credit income at all three divisions and development of guest loyalty programs. We also continued to increase efficiencies and leverage the resources of a consolidated credit organization.

In 1997, we will continue to pursue new accounts and implement guest relationship programs to grow our credit business. We will also increase our investment in credit information systems to reduce expense and improve productivity. As a result, we are confident that we will achieve even higher levels of operating profit in the years to come.

Our Team

At Dayton Hudson Corporation, we are fortunate to employ 218,000 team members who are dedicated to providing superior service for our guests every day. We also appreciate the contributions made by our board of directors throughout the year. As I look ahead to 1997 and beyond, I am convinced that we have the right complement of businesses, the right strategies in place and the right people to lead and manage our growth into the next millennium.

Sincerely,

Bob Ulrich

Bob Ulrich
Chairman and Chief Executive Officer
March 24, 1997

Board of Director Changes

In early 1997, Rand Araskog, chairman and chief executive of ITT Corp., and Pat McPherson, president of Bryn Mawr College, retired from the board of directors. We thank Rand for his 15 years and Pat for her eight years of service and expertise. In 1996, we welcomed to the board Richard Kovacevich, chairman and chief executive officer of Norwest Corp.

We measure our success at Dayton Hudson by how well we serve our key constituents—shareholders, guests, team members and our communities. Quite simply, it means we're committed to:

Maximizing **shareholder returns** over time;

Providing **value to our guests** through an unwavering dedication to merchandise leadership, quality products, competitive prices, excellent service and a convenient shopping experience;

Building our reputation as a **preferred place to work**; and

Continuing our strong support of and **commitment to communities** where we live and work.

On the following pages, you will read more about the initiatives underway at each of our operating divisions that are helping us reward our shareholders and other stakeholders of Dayton Hudson.

Target is an upscale discount store that provides quality merchandise at attractive prices in spacious and guest-friendly stores.

In 1996, Target posted strong sales and achieved a record level of operating profit. The key to our consistent financial success is our differentiation from the competition. While we meet or beat the competition on price, we offer more for our guests in terms of our trend-right merchandise; our clean, attractive store environment; and our attention to guest service. Target is known for its high-quality merchandise, fresh assortments and cohesive merchandise presentation. As a high-volume, low-margin format, Target is always looking for ways to reduce expenses and in 1996 eliminated more than $60 million of annual operating expenses. Our strategy is to continue to offer our guests more reasons to shop at Target by differentiating ourselves from Wal-Mart and Kmart while maintaining our competitive pricing.

Easy-to-shop stores

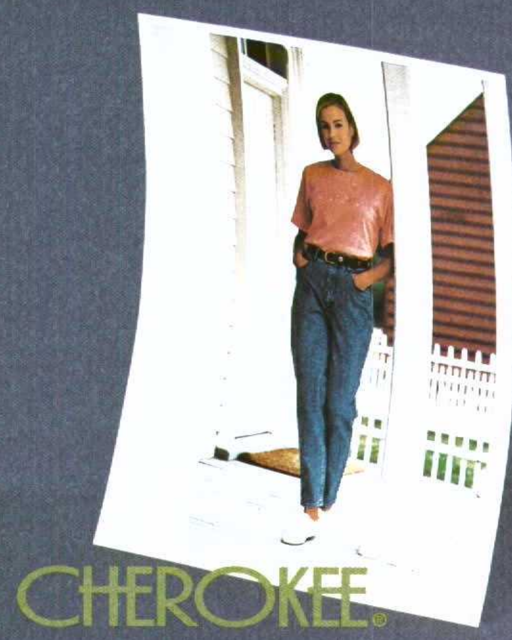
A Target store's wide aisles, clear signage and bright environment are by design. Target's high standards for store environment begin with an optimal store design and include hiring the best contractors and then maintaining the stores with first-class building services teams. Since Target's inception in 1962, one of our core values has been to provide a clean, easy-to-shop store for our guests.

Speed and service

Speed and courteous service are priorities at Target because research shows they are most important to our guests. To meet the continuing challenge to improve its guest service culture, in 1997 Target will introduce new CD-ROM-based training for all team members. The training — called "I can do that!" — will provide coaching in four key service behaviors: being friendly, greeting the guest, offering help and responding quickly. To increase speed of service, different in-store technologies are being tested for their effectiveness, such as pagers and hands-free communication. Our goal is simple: respect guests and their time.

High-quality apparel

Target is committed to selling high-quality merchandise and offering fashionable apparel for our guests. In 1996, Target introduced its new Cherokee line in women's, girls', accessories and women's shoes — the largest softlines brand launch in Target history. The line features sweat-shirts, t-shirts, pants and sweaters. The Cherokee brand appeals to the Target guest who wants high-quality "weekend wear." In the first six months on the floor, Cherokee outsold its 18-month sales plan by $50 million. The success of the line was instrumental in Target achieving a comparable-store sales increase in ready to wear and girls in 1996. In 1997, the Cherokee brand is expected to further increase sales and also have a positive spillover effect on Target's basic apparel business.



More than 5 million cards issued

Target Guest Card More than five million account holders now enjoy the benefits of the Target Guest Card. The Guest Card was introduced nationwide in 1995. The card results in incremental sales for Target and added about a percentage point to the division's comparable-store sales increase in 1996. Further cardholder expansion is planned in 1997.

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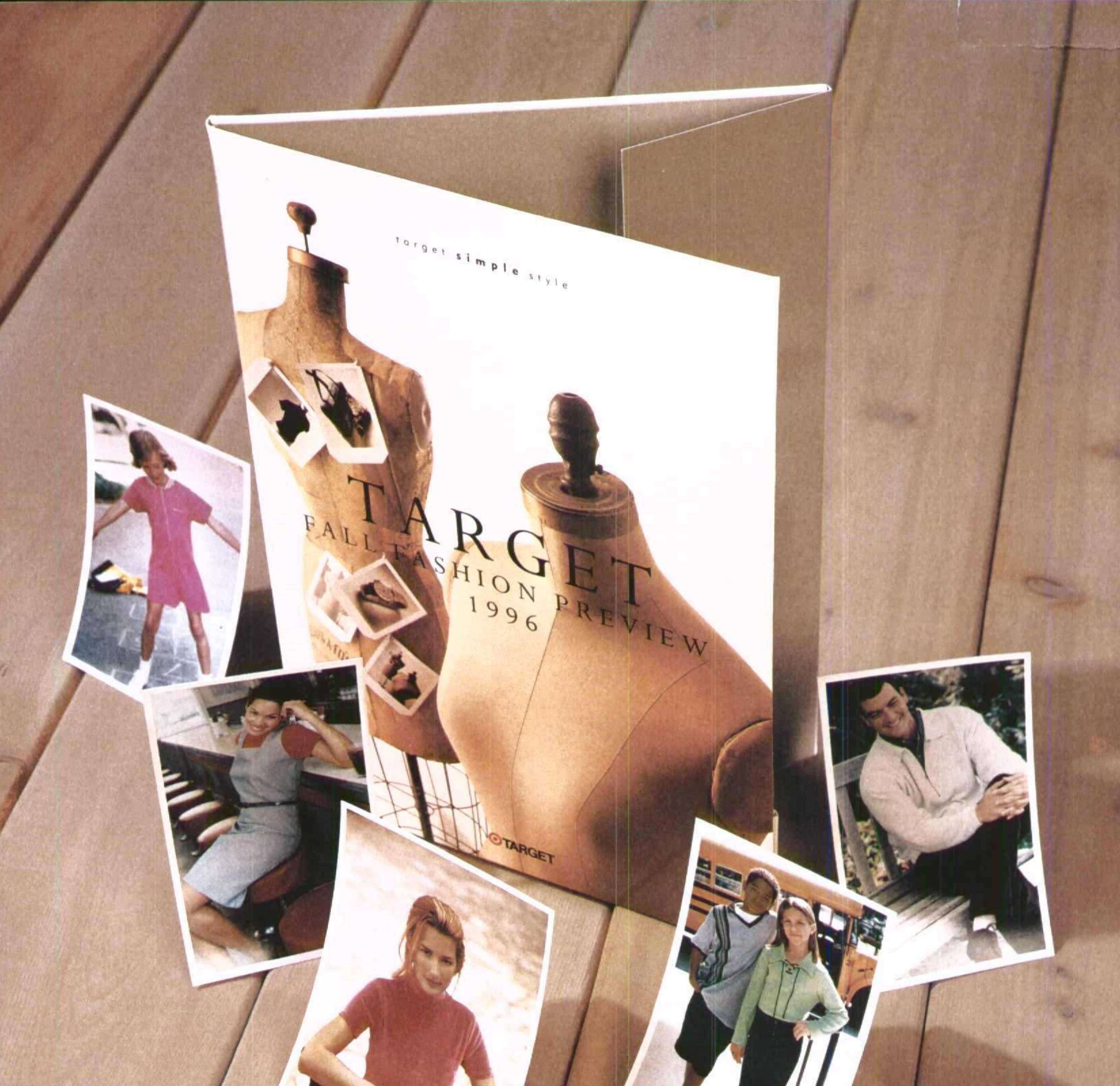
Preferred workplace

To increase team member satisfaction — and reduce turnover and expense — Target is intent on becoming the "preferred workplace." In 1996, Target improved its training programs through new technology and peer instruction. In addition, regular wage and benefit surveys in all our markets help ensure that we are offering competitive compensation. In 1997, Target will also introduce a new scheduling system in all our stores to better meet team member scheduling needs and guest service requirements.



Trend-right merchandise

The Target trend department inspires Target merchants to provide guests with industry-leading, trend-right merchandise. In apparel, leading-edge styles, colors and fabrics are identified and then interpreted for the Target guest. The department also identifies lifestyle trends important to our guests. For example, in response to the trend of working from home, guests can find everything at Target to equip their home offices: lighting, storage boxes, furniture and desk accessories. In addition, because gardening is now America's number one pastime, Target created the "Garden Place," featuring patio furniture, decorative lighting, pots, live plants and more. As a result, this seasonal business posted high single digit comparable-store sales increases in 1996, despite very poor spring weather. In 1997, the trend department will become more involved in communicating trend messages to guests through partnerships with the advertising and in-store presentation departments.

Store growth

In 1996, Target opened 66 net new stores, including 25 stores in Virginia, Maryland, New York and the District of Columbia. This is Target's first entry into the Northeast and mid-Atlantic regions, home to 40 percent of the U.S. population. These areas will continue to be a primary focus for the division's near-term growth, with Target entering New Jersey and Pennsylvania over the next two years. While the cost of store sites in these markets is generally higher, so is the sales potential in these densely populated markets, making the profit opportunity for these stores equal to or greater than stores in other parts of the country.

Cost-saving practices

To offer guests the best possible merchandise for the lowest price, Target is constantly looking for ways to reduce operating expenses. Our goal is to reduce expenses by implementing cost-saving practices into daily store operations. For example, stores are now using an electronic "auto pull" system to pull merchandise from the stock room to the selling floor to replenish merchandise that has been sold. The system incorporates data from point-of-sale and incoming freight to identify product that is needed on the floor, then creates "batches" of goods to efficiently move to the floor. A hand-held computer even directs team members to the exact merchandise location in the stock room. The system replaces a complex manual procedure for restocking and will save Target millions of dollars annually. In 1996, 14 Target stores were selected to test a host of other efficient ideas and processes that can be introduced into a store's operating environment; after the ideas are validated they will be rolled out chainwide in 1997.

Low prices

Target Store's ability to meet or beat the competition on price — while differentiating ourselves from other discounters on trend, quality, store environment and guest services — sets us apart.

In-stock merchandise

Our goal is always to delight Target guests by being in stock on the items they want, and at the same time, to effectively manage inventory levels. That's why 30 million replenishment decisions are made every week on 50,000 items. The use of sophisticated information technology allows us to better respond to guest shopping patterns. We look at an item's sales pattern, its minimum shelf presentation and buy "to the trend" instead of just replacing sold merchandise. We have significantly reduced the time between product shipment and when the product arrives in our stores — ensuring that we have the right item, in the right place, at the right time, at the right price for our guests.

Mervyn's is a moderate-priced promotional department store that specializes in softgoods.

In spring 1995, Mervyn's embarked on a new strategy to re-establish itself with guests and improve its financial performance. The current strategy includes holding more promotions, increasing the focus on national brands, refining merchandise assortments and infusing a California theme into Mervyn's merchandise and advertising. Mervyn's priority in 1996 was to improve profitability — through higher gross margin and lower expenses — while continuing to refine its merchandising and promotional strategies. As a result, Mervyn's fully achieved its profit plan for the year. The division planned sales conservatively in 1996 to better control inventories, reduce markdowns and allow for proper implementation of the strategy. While the 1996 focus on profitability had negative implications for sales results, Mervyn's is on the right track to revitalize its top-line growth in 1997.

Focused assortments

Narrower, more focused assortments for our guests is a major component of Mervyn's merchandising strategy. Merchants are buying fewer styles, focusing on key items and reducing assortments per in-store fixture. This gives the Mervyn's guest a higher probability of regularly finding the right size, color and styling, which drives sales performance and helps control inventories. In addition, the sales floor looks cleaner and there is greater price-point impact. For example, during the holiday selling season, Mervyn's assortment of women's robes was reduced by almost 60 percent from the prior year while sales increased almost 40 percent. This focus on key items and styles is being implemented throughout all merchandise categories.

Easy store operations

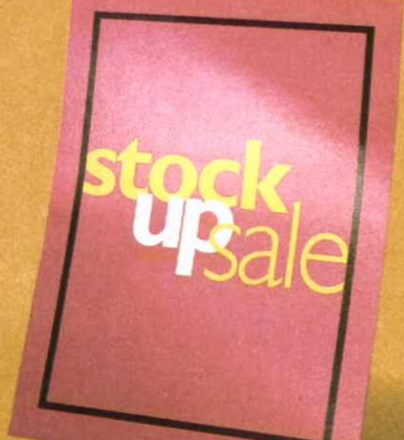
Mervyn's goal is to have an easier store to operate through better, clearer processes and procedures, and the adoption of best methods. The "Easy Store" initiative eliminates work that doesn't add value, simplifies existing work in the store and calls for the use of more advanced technology. As a result, in 1996 Mervyn's eliminated more than 110 labor hours per store, per month in unnecessary work. For example, Mervyn's has significantly reduced its back-stock inventory by moving to just-in-time product delivery. And the use of hand-held scanners for taking markdowns has resulted in better sell-through of clearance merchandise. Easy Store initiatives accounted for approximately $40 million of Mervyn's overall $100 million expense savings in fiscal 1996.

brands

National brands

Mervyn's is a destination for key national brands. Mervyn's new merchandising strategy includes adding more name brands throughout the store and intensifying major brands through stronger in-store presentation. In the athletic shoe area, we have added the Fila and Adidas brands to our top-selling Nike and Reebok lines and created in-store shops to heighten brand recognition. As a result, athletic shoes posted a high single digit comparable-store sales increase at Mervyn's in 1996.

Guest First Mervyn's Guest First program trains team members in principles of guest service and operational standards for the store. Every month mystery shoppers measure Mervyn's stores on guest service indicators — such as length of wait for checkout — and how "guest ready" the store is compared to internal standards of in-stocks, timeliness of markdowns and accuracy of signing. In 1996, Mervyn's guest satisfaction scores showed significant improvement, particularly in delivering faster speed of service for the guest.



More promotions

In 1996, Mervyn's continued to fine-tune the two factors essential to any promotional strategy: the amount of merchandise on sale and the level of the pricing discount. In 1996, Mervyn's offered slightly more merchandise on sale than the prior year, but took a more focused approach to promotional discounts and put deep inventory behind key items. As a result, Mervyn's gross margin rate improved significantly in 1996 as both promotional markdowns and clearance markdowns declined, while the initial markup rate increased compared with 1995.

The Department Store Division,

which operates as Dayton's, Hudson's and Marshall Field's, emphasizes fashion leadership, quality merchandise and superior guest service.

In late 1995, the Department Store Division announced a new strategy designed to return to its heritage as "the best store in town." The strategy, which was implemented in 1996, includes an increased focus on "better" merchandise; more uniqueness in merchandise assortments; a reduction in the number of store-wide promotions; and a greater emphasis on guest service. The Department Store Division's results in 1996 reflect this strategic repositioning. While comparable-store sales declined as a result of lost promotional volume, sales of regular-priced merchandise and better lines of merchandise showed healthy sales increases. The division's 1996 results, while disappointing, are an investment in the future with considerable payback expected in the years to come. In 1997, the Department Stores will focus on growing sales while reducing expenses and improving overall profitability.

Fewer promotions

The Department Stores undertook a more conservative promotional strategy in 1996, significantly reducing the frequency and duration of store-wide sales events. As expected, the division's comparable-store sales results were adversely affected by this reduced promotional volume during the year. Store-wide promotional days declined 50 percent from the prior year. At the same time, the Department Stores are strengthening the promotional performance on remaining key sales events, such as the Daisy Sale and Field Days, through sharper pricing, more varied media packages and intensified in-store marketing. And the division is emphasizing promotions in specific merchandise categories, such as home textiles and intimate apparel, rather than store-wide sales events.

Enhanced guest service

To strengthen our relationships with guests and improve service levels, we increased staffing on the sales floor by 10 percent in 1996 and introduced a new service training program called "We Would Be Delighted." The program defines the high level of service that all guests can expect in our stores. Based on guest feedback that they expect different levels of service in different areas of the store, the Department Stores identified four levels of service: essential, specialized, personalized and wardrobe services. Every team member will receive training in these concepts in 1997. In 1996, the Department Stores' guest satisfaction scores showed marked improvement, with the largest gains in areas such as finding help, speed of service and team member attitude.

More unique merchandise

To solidify our position of fashion leadership, the Department Store Division is repositioning and strengthening its "owned" or private label brands. The result will be fresher, more innovative merchandise for our guests. We are building on our core brands such as Field Gear, Field Manor, 111 State and Indeed. Our goal is to significantly increase the penetration of our owned brands over the next two years.

better
merchandise

Expanded merchandise assortments

In order to re-establish its image as a fine department store, the Department Store Division is expanding its assortments of "better" merchandise. We have enhanced our better ready-to-wear assortments and improved the presentation of better merchandise with new fixtures and vendor shops. The Department Store Division now offers "bridge" lines such as Anne Klein II and Dana Buchman at 32 of our stores. In the men's area, we have increased our inventory in better sportswear lines such as Tommy Hilfiger and Nautica, leading to double digit comparable-store sales increases in men's collections in 1996.

Special merchandising events

Special merchandising events differentiate Dayton's, Hudson's and Marshall Field's with our guests. These events devote significant inventory, store space and marketing support to merchandise one key message or trend. In spring 1996, "The Player's Shop" was introduced to capitalize on the popularity of golf. The shop features an extensive collection of name-brand merchandise and is supported by special events such as the Dayton's Challenge Golf Tournament. As a result, 1996 sales of golf-related merchandise increased about 200 percent compared with 1995.

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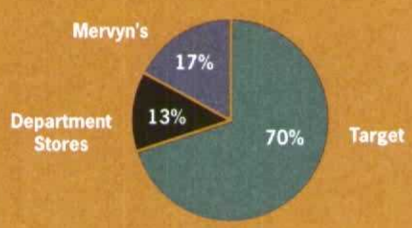
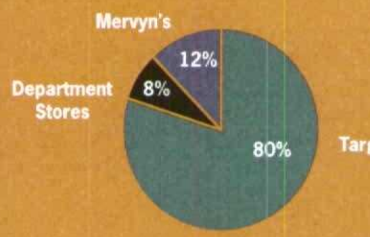
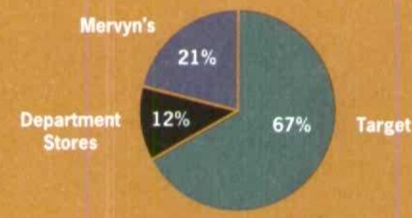
Measuring Our Performance **1996 Results**



Revenues
(percent of total)



Operating Profit**
(percent of total)



Retail Square Feet
(percent of total)

Target

(in millions)	1996	1995	1994
Revenues	$ 17,853	$15,807	$13,600
Operating Profit	$ 1,042	$ 719	$ 732
Stores	736	670	611
Retail Square Feet*	79,360	71,108	64,446

*In thousands, reflects total square feet, less office, warehouse and vacant space.

Target Locations (at year end)

= Store-occupied State
= Major Market

	Retail Sq. Ft. in Thousands	No. of Stores
AL	117	1
AZ	2,453	23
AR	186	2
CA	14,530	133
CO	2,334	22
FL	6,605	60
GA	2,439	23
ID	309	3
IA	1,760	17
IL	5,245	46
IN	2,858	31
KS	738	7
KY	800	8
LA	203	2
MD	1,421	12
MI	4,780	45
MN	4,879	42
MS	116	1
MO	1,368	13
MT	299	3
NE	1,074	9
NV	841	8
NM	490	5
NY	473	4
NC	1,530	15
ND	424	4
OH	2,004	18
OK	791	8
OR	1,157	11
SC	393	4
SD	391	4
TN	1,830	18
TX	8,356	78
UT	534	3
VA	1,053	9
WA	2,307	22
WI	2,090	20
WY	182	2
Total	**79,360**	**736**

Major Markets

Greater Los Angeles	68
Chicago	31
Minneapolis/St. Paul	30
San Francisco Bay Area	25
Detroit	23
Dallas/Ft. Worth	21
Houston	21
Atlanta	20
Greater Miami	18
Denver/Boulder	15
Phoenix	15
San Diego	12
Seattle/Tacoma	12
Indianapolis	11
St. Louis	11
Tampa/St. Petersburg	11
Greater Cleveland	9
Milwaukee	8
Washington, DC	8
Baltimore	7

Employees: 149,000

Mervyn's

(in millions)	1996	1995	1994
Revenues	$ 4,369	$ 4,516	$ 4,561
Operating Profit	$ 153**	$ 100	$ 206
Stores	300	295	286
Retail Square Feet*	24,518	24,113	23,130

**Net of a real estate repositioning charge of $114 million at Mervyn's and $20 million at DSD

Mervyn's Locations (at year end)

= Store-occupied State
= Major Market

	Retail Sq. Ft. in Thousands	No. of Stores
AZ	1,208	15
CA	9,949	128
CO	936	12
FL	1,611	18
GA	555	7
ID	83	1
LA	538	7
MI	1,176	15
MN	1,050	8
NV	499	7
NM	266	3
OK	270	3
OR	551	7
TX	3,637	45
UT	760	8
WA	1,429	16
Total	**24,518**	**300**

Major Markets

Greater Los Angeles	51
San Francisco BayArea	29
Dallas/Ft. Worth	13
San Diego	12
Houston	11
Phoenix	11
Detroit	9
Seattle/Tacoma	9
Minneapolis/St. Paul	8
Greater Salt Lake City	8
Denver	7

Employees: 32,000

Department Stores

(in millions)	1996	1995	1994
Revenues	$ 3,149	$ 3,193	$ 3,150
Operating Profit	$ 108**	$ 184	$ 270
Stores	65	64	63
Retail Square Feet*	14,111	13,870	13,587

Dept. Store Locations (at year end)

= Store-occupied State
= Major Market

	Retail Sq. Ft. in Thousands	No. of Stores
Dayton's		
MN	3,072	13
ND	297	3
SD	102	1
WI	373	3
Hudson's		
IN	246	2
MI	4,516	19
OH	187	1
Marshall Field's		
IL	4,289	18
OH	204	1
TX	155	1
WI	670	3
Total DSD	**14,111**	**65**

Major Markets

Chicago	17
Minneapolis/St. Paul	11
Detroit	10

Employees: 37,000

Total Stores: 1,101
Total Retail Square Feet: 117,989,000

Our net earnings were $463 million in 1996, compared with $311 million in 1995 and $434 million in 1994. Earnings per share were $1.95 in 1996, $1.30 in 1995 and $1.84 in 1994. (References to earnings per share relate to fully diluted earnings per share.) In 1996, earnings were reduced by two unusual items, a real estate repositioning charge of $.35 per share and an extraordinary charge for the purchase and redemption of debt of $.05 per share.

Operating profit in 1996 improved 30 percent to $1,303 million in 1996, compared with $1,003 million in 1995 and $1,208 million in 1994. Operating profit is last-in, first-out (LIFO) earnings from operations before corporate expense, interest and income taxes. Target and Mervyn's operating profit improved 45 percent and 53 percent, respectively, compared with the prior year, while the Department Store Division (DSD) reported a decline of 41 percent. Mervyn's and DSD's 1996 operating profit results include real estate repositioning charges of $114 million and $20 million, respectively.

We undertook several strategic initiatives that improved overall profitability in 1996. Continued growth in profitability is expected in 1997, particularly early in the year:

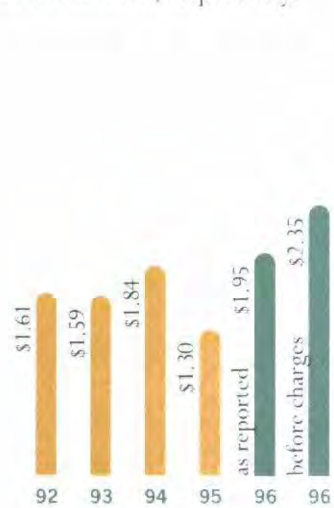
- **Target** attained record levels of operating margin (operating profit as a percentage of revenues) through strong sales momentum, improvement in its gross margin rate and significant operating expense savings related to a broad-based productivity improvement program. Target expects continued mid-single digit comparable-sales increases combined with further expense savings initiatives to generate continued operating profit growth in 1997.
- **Mervyn's** operating profit improved by $167 million in 1996 before the real estate repositioning charge of $114 million, through a combination of substantial expense reduction efforts and gross margin improvement. Mervyn's focus in 1997 will be on producing positive comparable-store sales growth for the year and continuing to improve its overall financial performance. We expect operating profit at Mervyn's to be up only modestly from 1996 results before the real estate charge, through continued gross margin expansion partially offset by the lost profit from 25 to 35 fewer stores.
- **DSD's** sales and operating profit were lower in 1996 than 1995 due to sales declines and an unfavorable expense rate. DSD's 1996 results reflect the transition to its new strategy which includes substantially fewer storewide promotional events, a greater emphasis on better and more unique merchandise assortments and improved guest service. As a result of this strategy, DSD expects positive comparable-store sales growth combined with a significant expense reduction program to produce substantial growth in 1997 operating profit.

Real Estate Repositioning Charge

As a result of actions and decisions made in fourth quarter 1996, we recorded a pre-tax charge of $134 million, $81 million after-tax, for the real estate repositioning at Mervyn's and DSD to strengthen competitive positions and achieve improved long-term results. The charge includes $114 million for Mervyn's to sell or close its 25 stores in Florida and Georgia and approximately 10 other underperforming stores throughout the chain. Also included is a net charge of $20 million for DSD's disposition of its four Texas stores and the sale or closure of two other stores.

In fourth quarter 1996, DSD sold three of its four Texas stores. In first quarter 1997, Mervyn's exited the Florida and Georgia markets and DSD closed one store. All remaining properties are expected to be sold or closed within approximately 12 to 18 months.

Real estate repositioning actions at Mervyn's will reduce annualized revenue and operating profit by approximately $375 million and $15 million, respectively. At DSD, annualized revenues and operating profit will be reduced by approximately $130 million and $15 million, respectively.



Earnings per Share
(dollars)

Earnings per Share

The following earnings per share variance analysis and associated discussion represent management's view of the business and, in certain respects, differ from the classifications used in the Consolidated Results of Operations. In both cases, revenues include sales, as well as finance charges, late fees and other revenues. The gross margin rate, as shown in the table below and as further discussed, includes cost of retail sales and excludes buying and occupancy costs. The operating expense rate, in the table and as further discussed, includes selling, publicity and administrative expenses (excluding start-up and corporate and other expenses), depreciation and amortization, taxes other than income taxes and buying and occupancy costs. Start-up expenses, disclosed and further discussed separately, are costs associated primarily with opening new stores and distribution centers, and remodeling existing stores. Corporate and other expense includes corporate headquarters expense, corporate charitable contributions that support our annual giving program of five percent of federal taxable income and a variety of other items.

Strong sales growth at Target, our lowest gross margin and expense rate division, continues to impact our business mix. As a result, our overall revenue growth and operating expense rate were favorably affected, while the total gross margin rate was unfavorably affected. If the revenue mix had remained constant with 1995, the gross margin rate variance would have been $.14 more favorable and the operating expense rate variance would have been $.21 less favorable. Looking forward, Target is expected to continue to have an increasing impact on our overall gross margin and expense rate structure reflecting our strategy to grow Target more rapidly than our other divisions.

The following table illustrates the impact of the major factors causing the change in earnings per share:

Earnings Per Share Variance Analysis	1996 vs. 1995		1995 vs. 1994	
Prior year's earnings per share		**$1.30**		$1.84
Change due to:				
Revenues		**.27**		.54
Gross margin rate:				
FIFO	**.55**		(.65)	
LIFO provision	**.02**	**.57**	(.10)	(.75)
Operating expense rate		**.33**		(.27)
Real estate repositioning charge		**(.35)**		
Start-up expenses		**–**		(.06)
Interest expense, net		**–**		(.04)
Corporate and other expense, net		**(.07)**		.01
Income tax rate		**(.05)**		.03
Extraordinary charge from purchase and redemption of debt		**(.05)**		
Earnings per share		**$1.95**		$1.30

Revenues

In 1996, our total and comparable-store revenues increased 8 percent and 3 percent, respectively. Comparable-store revenues are revenues from stores open longer than a year. Target's 13 percent total revenue increase reflects a 6 percent comparable-store revenue increase and new store expansion. Mervyn's total revenue decline of 3 percent resulted primarily from a 4 percent comparable-store revenue decline, slightly offset by revenues from new stores. DSD's total revenue declined 1 percent due to a 4 percent comparable-store revenue decline, primarily reflecting the reduction in promotional days. Increased finance charge and late fee revenues at all three operating divisions also contributed to revenue growth.

We expect positive comparable-store revenue growth at all divisions in 1997. This growth is expected to result from a continuation of existing trends at Target, an improvement of in-stock performance and other marketing refinements at Mervyn's and the annualization of promotional calendar changes and merchandise enhancements at DSD.

Revenue growth in 1995 reflected a combination of new and comparable-store growth at Target as well as higher sales, finance charge and late fee revenues due to expansion of the Target Guest Card. Mervyn's total and comparable-store revenues declined reflecting low sales volume in the first half of the year and the transition to the new, more-promotional strategy. DSD's comparable-store revenues declined primarily due to reduced guest response to promotional events.

The impact of inflation on our consolidated operations was minimal and, as a result, the overall comparable-store revenue increase closely approximates real growth.

Revenue Growth (52-week basis)	1996		1995	
	All Stores	**Comp. Stores**	All Stores	Comp. Stores
Target	**13%**	**6%**	15%	6%
Mervyn's	**(3)**	**(4)**	(2)	(4)
DSD	**(1)**	**(4)**		(1)
Total	**8%**	**3%**	9%	3%

Revenues Per Square Foot* (52-week basis) (Dollars)	1996	1995	1994
Target	**$235**	$230	$222
Mervyn's	**179**	190	200
DSD	**223**	230	232

* Thirteen-month average retail square feet.

Gross Margin Rate

In 1996, strong gross margin rate improvement at Target and Mervyn's, offset somewhat by a slight deterioration at DSD, resulted in an overall gross margin rate improvement. This improvement was partially offset by the effect of Target's larger growth and lower gross margin rate structure.

- **Target's** strong gross margin improvement resulted from favorable markup and very favorable promotional markdowns. Target's 1997 gross margin rate may be adversely affected by cycling against the unusually favorable markdown experience in 1996.
- **Mervyn's** gross margin rate improved substantially for the year, reflecting improved markup and significantly lower markdowns. In 1997, we expect modest improvement in Mervyn's gross margin rate.
- **DSD's** gross margin rate declined slightly in 1996. Higher clearance markdowns were partially offset by improved markup and lower promotional markdowns. In 1997, we anticipate a somewhat improved gross margin rate, principally due to lower clearance markdowns.

The 1995 gross margin rate declined at all three operating divisions from 1994. Target's gross margin rate decrease reflected the strength of the low-margin commodity businesses in the fourth quarter and a highly competitive pricing environment. Mervyn's gross margin rate decline reflected significantly higher promotional markdowns without offsetting markup improvement during the first half of 1995. DSD's significant gross margin rate decrease was caused by substantially higher clearance markdowns and the year-over-year increase in the LIFO provision, partially offset by improved markup.

The LIFO provision was as follows:

LIFO Provision: (Expense)/Credit (Millions of Dollars, except Per Share Data)	**1996**	1995	1994
Target	**$ —**	$ —	$ —
Mervyn's	**5**	(12)	8
DSD	**(14)**	(5)	11
Total	**$ (9)**	$ (17)	$ 19
Per Share	**$(.02)**	$(.05)	$.05

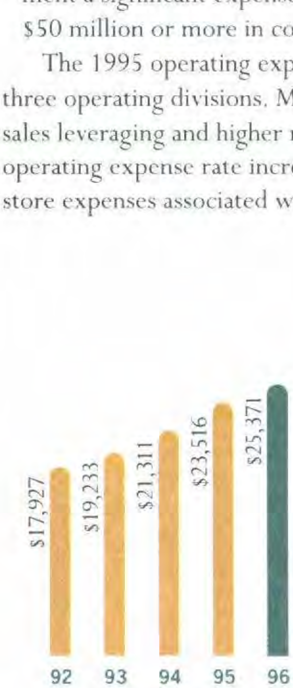
The LIFO provision is calculated based on inventory levels, markup rates and internally generated retail price indices. In 1996, the LIFO credit at Mervyn's resulted principally from higher markup and lower inventory levels while the LIFO charge at DSD resulted primarily from exiting the electronics business and the disposition of the Texas stores. The 1995 LIFO charge reflected retail price inflation, particularly associated with Mervyn's change to a more promotional strategy, partially offset by higher markup rates.

Operating Expense Rate

The overall operating expense rate improved in 1996, due to significant cost reductions at Mervyn's and Target and the favorable effect of Target's increasing impact on the overall expense rate structure. In 1997, we expect additional operating expense rate improvement, particularly at Target and DSD.

- **Target's** operating expense rate improved in 1996, reflecting savings of approximately $60 million in the first year of a three-year program to eliminate at least $200 million from operating expenses by improving store productivity and reducing headquarters and marketing costs. In 1997, we expect to eliminate a similar amount.
- **Mervyn's** operating expense rate improved significantly in 1996, as a result of more than $100 million in savings realized through an extensive expense reduction program, particularly in the areas of stores and marketing. Although expense control remains a priority in 1997, no new major expense reduction initiatives are planned.
- **DSD's** operating expense rate rose in 1996 principally as a result of unfavorable sales leverage. In 1997, DSD will implement a significant expense reduction program to eliminate $50 million or more in costs.

The 1995 operating expense rate increased over 1994 at all three operating divisions. Mervyn's and DSD experienced lower sales leveraging and higher marketing and other costs. Target's operating expense rate increase resulted principally from higher store expenses associated with starting wage-rate increases.



Revenues
(millions)

Operating Profit
(millions)

Start-up Expenses

Start-up expenses were essentially flat in 1996. Increased spending at Target due to its entrance into more expensive markets in the mid-Atlantic and Northeast was offset by savings from fewer Mervyn's store openings in 1996. We opened 75 new stores in 1996 compared with 76 stores in 1995 and 69 stores in 1994. Start-up expenses are generally recognized evenly throughout the year in which the expenses are incurred.

Interest Expense

In 1996, interest expense was equal to 1995 as higher average debt balances were offset by a lower average portfolio rate. Interest expense in 1995 increased $16 million over 1994 as higher average debt balances were only partially offset by a lower portfolio interest rate. Interest expense in 1997 is expected to be similar to 1996.

During 1996, we repurchased $325 million of sinking fund debentures for $340 million, resulting in an extraordinary charge of $.05 per share. As a result of these transactions, future annual interest expense is expected to be reduced by approximately $.03 per share over the period of time the debentures would have otherwise remained outstanding.

Income Tax Rate

The effective tax rates were 39.5 percent, 38.0 percent and 39.2 percent in 1996, 1995 and 1994, respectively. The 1996 effective tax rate reflects a more normalized rate, while lower earnings in 1995 caused permanent differences to have a greater impact. Our 1997 tax rate is expected to approximate the 1996 rate.

Fourth Quarter Results

Due to the seasonal nature of the retail industry, fourth quarter operating results represent a substantially larger share of the total year earnings due to the inclusion of the holiday shopping season.

Fourth quarter 1996 net earnings were $214 million, compared with $228 million in 1995. The fourth quarter earnings comparison was unfavorably affected by the real estate repositioning charge previously discussed. Earnings per share were $.91 for the quarter, compared with $.98 last year.

- **Target's** operating profit increased 26 percent over fourth quarter 1995, reflecting a 7 percent total revenue increase and an improved gross margin rate, offset by a slightly higher operating expense rate. Comparable-store revenues increased 3 percent. The gross margin rate improvement was driven by improved markup. The operating expense rate increased slightly due in part to lower sales leveraging in a shortened holiday selling season and higher advertising expenditures.
- **Mervyn's** operating profit increased $46 million before the $114 million real estate charge. Total revenues for the quarter declined 9 percent and comparable-store revenues decreased 7 percent. The gross margin rate was substantially better than last year primarily due to significantly lower markdowns and slightly higher markup. The operating expense rate deteriorated slightly as expense reductions were offset by lower sales leverage and higher bad debt expense.
- **DSD's** fourth quarter operating profit declined $47 million, partially due to the real estate repositioning charge of $20 million. Total revenues decreased 4 percent and comparable-store revenues were down 5 percent. The gross margin rate improved reflecting lower promotional markdowns and higher markup, principally offset by costs associated with exiting the Texas market. DSD's operating expense rate was substantially higher due to lower sales leverage and higher bad debt expense.

Our financial condition remains strong. Cash flow from operations was $1,458 million, driven by earnings growth, excellent inventory control and improved accounts payable leveraging. Internally generated funds continue to be the most important component of our capital resources and, along with our ability to access a variety of financial markets, provide funding for our expansion plans. Our strong cash flow from operations in 1996 allowed us to reduce total debt by $100 million. In 1997, we expect cash flow to remain strong.

During 1996, accounts receivable increased 14 percent, or $210 million, principally due to the expansion of the Guest Card, Target's proprietary credit card. In 1997, we expect to continue the growth of the Target Guest Card, which will benefit sales, accounts receivable and credit profitability.

A strong inventory/accounts payable equation generated $268 million in cash flow for the Corporation in 1996. Inventory levels increased only $13 million, reflecting tight inventory control at all three divisions, offset by new store growth at Target, while accounts payable grew by $281 million over last year.

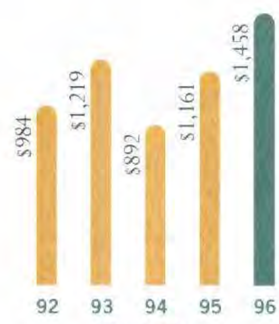
Capital expenditures in 1996 were $1,301 million, compared with $1,522 million in 1995. Target's growth in store count and square footage was essentially the same in both years, while the reduction in capital expenditures was principally due to Mervyn's 1995 entry into the Minneapolis market. Investment in Target comprised 81 percent of 1996 capital expenditures, while 6 percent and 13 percent were made by Mervyn's and DSD, respectively. Net property and equipment increased $173 million, reflecting capital invested offset by depreciation and the effect of real estate repositioning. During 1996, Target added 66 net new stores, Mervyn's opened five new stores and DSD opened four new stores. Approximately 71 percent of total capital expenditures was for new stores. Other investments were for distribution, information systems and other infrastructure to support our growth. Over the past five years, Target's square footage has grown at a compound annual rate of approximately 10 percent, and this growth rate is expected to continue into the foreseeable future.

Capital expenditures in 1997 are expected to approximate $1,500 million for the construction of new stores, remodeling of existing stores and other capital support. The majority of new store capital continues to be invested in Target. In the upcoming year, Target plans to open approximately 65 stores in new and existing markets and to construct two new distribution centers. Expansion plans for Target in 1997 include new stores in California, New York, New Jersey, North Carolina and Virginia. Mervyn's will open one new store and DSD plans to open two new stores, all in existing markets.

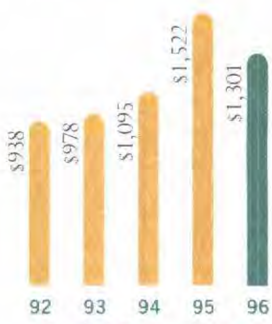
The Corporation's financing strategy is to ensure liquidity and access to capital markets, to manage the amount of floating rate debt and to maintain a balanced spectrum of debt maturities. Within these parameters, we seek to minimize our cost of borrowing. The average rate on our financings, including the sale of securitized accounts receivable, decreased to 8.3 percent in 1996 from 8.5 percent in 1995. The average portfolio rate is expected to decline further in 1997.

A key to the Corporation's liquidity and capital markets access is maintaining strong investment-grade debt ratings. Our long-term debt ratings are A-, Baa1 and BBB+ as rated by Duff & Phelps, Moody's and Standard & Poor's, respectively. Those agencies rate our commercial paper as D-1-, P-2 and A-2, respectively. These ratings were sufficient to support commercial paper levels well in excess of our $532 million outstanding at year end. Going forward, we expect that continued profit increases and cash flow from operations will allow us to fund our planned capital expenditures while maintaining or improving our debt ratings.

In addition to the unsecured debt markets, we accessed the secured debt market in 1995 through a securitization of our accounts receivable. Accounts receivable securitization represents an attractive alternative for financing accounts receivable growth and other liquidity needs. In 1996, we expanded our securitization program by issuing a $300 million, Variable Funding Certificate, backed by credit card receivables. The outstanding certificate amount fluctuates based on financing needs and was $100 million at year end 1996. Further liquidity is provided by $1,600 million of committed lines of credit obtained through a group of 28 domestic and international banks.



Cash Flow From Operations
(millions)



Capital Expenditures
(millions)

Shareholder Return

Our primary objective is to maximize shareholder value over time through a combination of dividend income and share price appreciation while maintaining a prudent and flexible capital structure.

Our total return to shareholders approximated 55 percent in 1996 and has averaged 14 percent and 13 percent per year over the last five and ten years, respectively.

Measuring Value Creation

We internally measure value creation using a form of Economic Value Added® (EVA®), which we define generally as after-tax operating profit less a capital charge for all investment employed. We calculate EVA before LIFO and non-recurring charges. The capital charge is an estimate of our after-tax cost of capital adjusted for the age of our stores, recognizing that mature stores should inherently have higher returns than newly opened stores. We estimate that the after-tax cost of capital for our retail business is 10 percent, while our credit operations' after-tax cost of capital is estimated to be 6 percent as a result of its ability to support higher debt levels. We expect to generate returns in excess of these costs of capital, thereby producing EVA.

There is generally a high correlation between generation of EVA and the creation of shareholder value. Maximizing EVA is the key to maximizing shareholder value over time. EVA is used to evaluate our performance and to guide capital investment decisions. A significant portion of executive incentive compensation is tied to the achievement of targeted levels of annual EVA.

® Economic Value Added and EVA are registered trademarks.

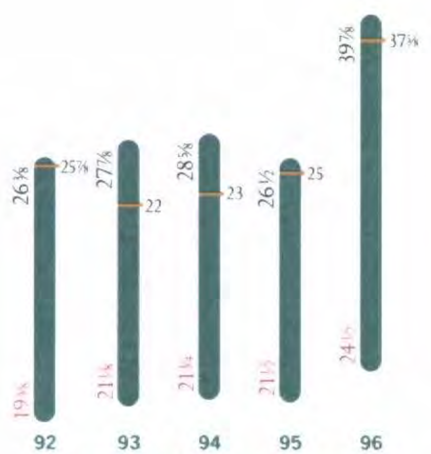
Financial Objectives

We believe that managing our business with a focus on EVA helps achieve our objective of annual earnings per share growth of 15 percent or more over time. We intend to produce these results, while maintaining a year-end debt ratio for our retail operations within a range of 45 percent to 55 percent, which will allow efficient capital market access to fund our growth. Our cash flows during 1996 allowed us to reduce our retail debt ratio to 50 percent, the mid-point of our target range. We expect to further reduce our leverage in 1997.

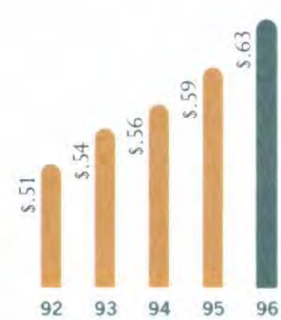
In evaluating our debt level, we separate retail operations from credit operations due to their inherently different financial characteristics. We view the appropriate capitalization of our credit business to be 88 percent debt and 12 percent equity, similar to ratios of comparable credit card businesses.

	1996	1995	1994
Debt Ratio*:			
Retail	**50%**	53%	50%
Credit	**88**	88	88
Total	**57%**	60%	57%
Balance Sheet Debt Ratio	**53%**	56%	55%

* Includes the impact of off-balance sheet operating leases and $400 million of securitized accounts receivable sold, as if they were debt.



Market Price per Share
(dollars)



Dividends per Share
(dollars)

Retail Debt Ratio
(year-end percent)

Internal credit strategically supports our core retail operations and has contributed significantly to our earnings growth. The operating margin of our credit operations increased by 18 percent in 1996 to $210 million compared with growth in average accounts receivable serviced of 11 percent. Improved credit performance was driven by continued expansion of the Target Guest Card, changes in payment terms at all three divisions and development of guest loyalty programs. The increase in the bad debt provision over the prior year was principally associated with additional reserves to cover potential increases in delinquency rates, given national industry trends.

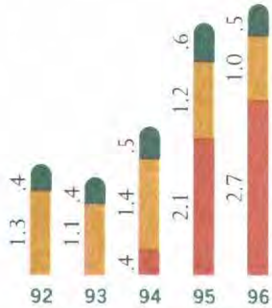
In 1997, we plan to continue growing the credit business by generating new accounts and further implementing guest relationship programs. In addition, we intend to reduce expenses by improving productivity through further development of common credit information systems. As a result, we expect continued growth in operating profit and EVA.

Credit Operating Profit

(Millions of Dollars)	1996	1995	1994
Revenues:			
Finance charge revenues and late fees	**$ 403**	$ 313	$ 248
Merchant and deferred billing fees	**72**	75	65
Total revenues	**475**	388	313
Expenses:			
Bad debt provision	**149**	104	66
Operating expenses	**116**	105	77
Total expenses	**265**	209	143
Operating Margin	**210**	179	170
Net impact from securitization	**(25)**	(10)	—
Operating Profit, net	**$ 185**	$ 169	$ 170
Average accounts receivable serviced:			
Target	**$ 453**	$ 313	$ 190
Mervyn's	**799**	791	765
DSD	**663**	615	549
Total average accounts receivable serviced	**$1,915**	$1,719	$1,504
Average accounts receivable owned	**$1,515**	$1,558	$1,504

In the Credit Operating Profit table, revenues, expenses and operating margin are associated with accounts receivable serviced. Merchant fees are the fees charged to our retail operations on a basis similar to fees charged by third-party credit cards. Deferred billing fees are charges for carrying non-revenue-earning revolving balances. Both the merchant and deferred billing fees are intercompany transfer prices that are eliminated in consolidation. Operating expenses are those associated with granting and servicing credit. The net impact from the 1995 sale of $400 million of securitized accounts receivable is a reduction of revenues, as well as a reduction in the bad debt provision. Average accounts receivable serviced represents an average of all accounts receivable, including the securitized accounts receivable sold, while the calculation of average accounts receivable owned reflects a reduction for the sale of securitized accounts receivable.

Credit revenue, operating profit and EVA continue to be recorded in each of the operating divisions' results to recognize credit's strategic support of our core retail operations.



New Accounts Opened

DSD
Mervyn's
Target
(in millions)

Total Capitalization

Retail Operations
Credit Operations
(millions)

Pre-tax Segment Profit and EBITDA

Pre-tax segment profit is operating profit before the impact of LIFO, the net reduction related to the sale of securitized accounts receivable and the 1996 real estate repositioning charge. EBITDA is pre-tax segment profit before depreciation and amortization. Management uses pre-tax segment profit and EBITDA, among other standards, to measure the divisions' operating performance. These measures supplement, and are not intended to represent measures of performance in accordance with, disclosures required by generally accepted accounting principles. They are included as tools for analyzing our results.

		1996	
(Millions of Dollars)	Target	Mervyn's	DSD
Operating Profit	**$1,042**	**$153**	**$108**
LIFO expense/(credit)	—	(5)	14
Net impact from securitization	6	10	9
Real estate repositioning charge	—	114	20
Pre-tax Segment Profit	**1,048**	**272**	**151**
Depreciation and amortization	377	151	119
EBITDA	**$1,425**	**$423**	**$270**

		1995*	
	Target	Mervyn's	DSD
Operating Profit	$ 719	$100	$184
LIFO expense		12	5
Net impact from securitization	2	5	3
Pre-tax Segment Profit	721	117	192
Depreciation and amortization	328	150	113
EBITDA	$1,049	$267	$305

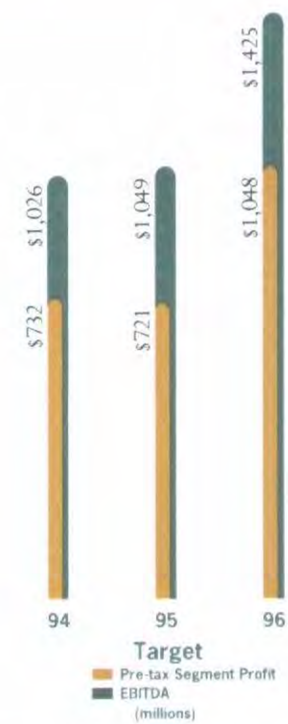
		1994	
	Target	Mervyn's	DSD
Operating Profit	$ 732	$206	$270
LIFO credit	—	(8)	(11)
Pre-tax Segment Profit	732	198	259
Depreciation and amortization	294	145	108
EBITDA	$1,026	$343	$367

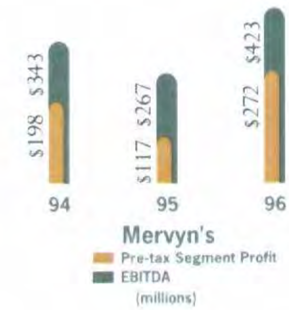
Pre-tax Segment Profit as a Percent of Revenues			
1996	**5.9%**	**6.2%**	**4.8%**
1995*	4.6	2.6	6.0
1994	5.4	4.3	8.2

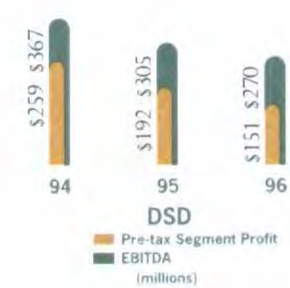
EBITDA as a Percent of Revenues			
1996	**8.0%**	**9.7%**	**8.6%**
1995*	6.6	5.9	9.6
1994	7.5	7.5	11.7

* Consisted of 53 weeks

Pre-tax Segment Profit and EBITDA







Notes to Consolidated Financial Statements

Business Segment Comparisons (Millions of Dollars)	1996	1995*	1994	1993	1992	1991
Revenues						
Target	**$17,853**	$15,807	$13,600	$11,743	$10,393	$ 9,041
Mervyn's	**4,369**	4,516	4,561	4,436	4,510	4,143
Department Store Division	**3,149**	3,193	3,150	3,054	3,024	2,931
Total revenues	**$25,371**	$23,516	$21,311	$19,233	$17,927	$16,115
Operating profit						
Target	**$ 1,042**	$ 719	$ 732	$ 662	$ 574	$ 458
Mervyn's	**153**	100	206	179	284	284
Department Store Division	**108**	184	270	268	228	168
Total operating profit	**1,303**	1,003	1,208	1,109	1,086	910
Interest expense, net	**442**	442	426	446	437	398
Corporate and other	**78**	60	68	56	38	40
Earnings before income taxes and extraordinary charge	**$ 783**	$ 501	$ 714	$ 607	$ 611	$ 472
Assets						
Target	**$ 8,257**	$ 7,330	$ 6,247	$ 5,495	$ 4,913	$ 4,393
Mervyn's	**2,658**	2,776	2,917	2,750	3,042	2,686
Department Store Division	**2,296**	2,309	2,392	2,240	2,292	2,317
Corporate and other	**178**	155	141	293	90	89
Total assets	**$13,389**	$12,570	$11,697	$10,778	$10,337	$ 9,485
Depreciation and amortization						
Target	**$ 377**	$ 328	$ 294	$ 264	$ 236	$ 209
Mervyn's	**151**	150	145	146	135	117
Department Store Division	**119**	113	108	104	104	100
Corporate and other	**3**	3	1	1	1	1
Total depreciation and amortization	**$ 650**	$ 594	$ 548	$ 515	$ 476	$ 427
Capital expenditures						
Target	**$ 1,048**	$ 1,067	$ 842	$ 716	$ 571	$ 605
Mervyn's	**79**	273	146	180	294	303
Department Store Division	**173**	161	96	80	72	106
Corporate and other	**1**	21	11	2	1	2
Total capital expenditures	**$ 1,301**	$ 1,522	$ 1,095	$ 978	$ 938	$ 1,016

* Consisted of 53 weeks.

In 1996, operating profit includes real estate repositioning charges of $114 million and $20 million at Mervyn's and DSD, respectively.

In 1996, operating profit is net of reductions of $6 million, $10 million and $9 million for Target, Mervyn's and DSD, respectively, related to the sale of securitized accounts receivable. In 1995, the net reductions were $2 million, $5 million and $3 million for Target, Mervyn's and DSD, respectively.

Each operating division's assets and operating results include the undivided interest in the accounts receivable held by Dayton Hudson Receivables Corporation (in 1995 and 1996) and Retailers National Bank (1993 to 1996), as well as related income and expenses.

Consolidated Results of Operations

(Millions of Dollars, Except Per Share Data)	1996	1995	1994
Revenues	**$25,371**	$23,516	$21,311
Costs and Expenses			
Cost of retail sales, buying and occupancy	**18,628**	17,527	15,636
Selling, publicity and administrative	**4,289**	4,043	3,614
Depreciation and amortization	**650**	594	548
Interest expense, net	**442**	442	426
Taxes other than income taxes	**445**	409	373
Real estate repositioning charge	**134**	—	—
Total Costs and Expenses	**24,588**	23,015	20,597
Earnings Before Income Taxes and Extraordinary Charge	**783**	501	714
Provision for Income Taxes	**309**	190	280
Net Earnings Before Extraordinary Charge	**$ 474**	$ 311	$ 434
Extraordinary Charge from Purchase and Redemption of Debt, Net of Tax	**11**	—	—
Net Earnings	**$ 463**	$ 311	$ 434
Primary Earnings Per Share:			
Earnings Before Extraordinary Charge	**$ 2.07**	$ 1.34	$ 1.92
Extraordinary Charge	**.05**	—	—
Primary Earnings Per Share	**$ 2.02**	$ 1.34	$ 1.92
Fully Diluted Earnings Per Share:			
Earnings Before Extraordinary Charge	**$ 2.00**	$ 1.30	$ 1.84
Extraordinary Charge	**.05**	—	—
Fully Diluted Earnings Per Share	**$ 1.95**	$ 1.30	$ 1.84
Average Common Shares Outstanding (Millions):			
Primary	**218.7**	216.8	216.0
Fully Diluted	**230.6**	229.2	228.9

See Notes to Consolidated Financial Statements on pages 23–34.

Summary of Accounting Policies

Organization Dayton Hudson Corporation is a general merchandise retailer. Our operating divisions consist of Target, Mervyn's and the Department Store Division (DSD). Target, an upscale discount chain located in 38 states, generated 70 percent of our 1996 revenues. Mervyn's, a middle-market promotional department store located in 16 states in the West, South and Midwest, contributed 17 percent of revenues. DSD offers trend leadership, quality merchandise and superior service throughout its department stores located in nine states in the Midwest, and produced 13 percent of revenues.

Consolidation The financial statements include the accounts of the Corporation after elimination of material intercompany balances and transactions. All subsidiaries are wholly owned.

Use of Estimates The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates.

Fiscal Year Our fiscal year ends on the Saturday nearest January 31. Unless otherwise stated, references to years in this report relate to fiscal years rather than to calendar years.

Fiscal Year	Ended	Weeks
1996	February 1, 1997	52
1995	February 3, 1996	53
1994	January 28, 1995	52

Revenues

Finance charge revenues and late fees on internal credit sales were $346 million on sales of $3.8 billion in 1996, $292 million on sales of $3.8 billion in 1995 and $248 million on sales of $3.6 billion in 1994. Leased department sales were $162 million, $153 million and $156 million in 1996, 1995 and 1994, respectively.

Earnings Per Share

Primary earnings per share equals net earnings, less dividend requirements on the Employee Stock Ownership Plan (ESOP) preferred stock, divided by the average number of common shares and common share equivalents outstanding during the period. Fully diluted earnings per share assumes conversion of the ESOP preferred stock into common stock. Net earnings are adjusted for the additional expense required to fund the ESOP debt service, which results from the assumed replacement of the ESOP preferred dividends with common stock dividends. References to earnings per share relate to fully diluted earnings per share.

During 1996, the Corporation distributed to shareholders two additional shares of common stock for each share owned, resulting in a three-for-one common stock split. All earnings per share, dividends per share and common shares outstanding reflect the stock split.

Advertising Costs

Advertising costs, included in selling, publicity and administrative expenses, are expensed as incurred and were $634 million, $670 million and $604 million for 1996, 1995 and 1994, respectively.

Real Estate Repositioning Charge

As a result of actions and decisions made in fourth quarter 1996 to sell or close stores, we recorded a pre-tax real estate repositioning charge of $134 million ($.35 per share). The charge includes $114 million for Mervyn's to sell or close its 25 stores in Florida and Georgia, and approximately 10 other underperforming stores throughout the chain. Also included is a net charge of $20 million for DSD's exit from the Texas market and the sale or closure of two other stores.

The real estate repositioning charge reflects a $87 million charge for the write-down of property and equipment to its net realizable value, which includes the net gain realized on the December 1996 sale of the DSD Texas stores. In the first quarter 1997, Mervyn's exited the Florida and Georgia markets and DSD closed one store. All remaining properties are expected to be sold or closed within approximately 12 to 18 months. At year end 1996, properties held for sale are classified in other current assets at their net realizable value.

The charge also includes $47 million for exit costs associated with the real estate repositioning effort, including expected cash outlays for lease liabilities and other real estate costs, occupancy costs during the shut-down period and incremental bad debt expense related to the exit of specific markets. There were no material charges against the reserve for exit costs in 1996, which is included in accrued liabilities at February 1, 1997.

Income Taxes

Reconciliation of tax rates is as follows:

Percent of Earnings Before Income Taxes	**1996**	1995	1994
Federal statutory rate	**35.0%**	35.0%	35.0%
State income taxes, net of federal tax benefit	**4.6**	4.9	4.7
Dividends on preferred stock	**(.8)**	(1.1)	(.6)
Targeted Jobs Tax Credits	—	(.5)	(.7)
Other	**.7**	(.3)	.8
Effective tax rate	**39.5%**	38.0%	39.2%

The components of the provision for income taxes were:

Income Tax Provision Expense/(Benefit) (Millions of Dollars)	**1996**	1995	1994
Current:			
Federal	**$ 344**	$158	$262
State	**72**	38	59
	416	196	321
Deferred:			
Federal	**(89)**	(5)	(34)
State	**(18)**	(1)	(7)
	(107)	(6)	(41)
Total	**$ 309**	$190	$280

The components of the net deferred tax asset/(liability) were:

Net Deferred Tax Asset/(Liability) (Millions of Dollars)	**February 1, 1997**	February 3, 1996
Gross deferred tax assets:		
Self-insured benefits	**$109**	$ 99
Deferred compensation	**85**	74
Postretirement health care obligation	**44**	44
Allowance for doubtful accounts	**49**	28
Other	**108**	98
	395	343
Gross deferred tax liabilities:		
Property and equipment	**(288)**	(319)
Inventory	**(15)**	(27)
Other	**(35)**	(47)
	(338)	(393)
Net	**$ 57**	$ (50)

Consolidated Statements of Financial Position

(Millions of Dollars)	February 1, 1997	February 3, 1996
Assets		
Current Assets		
Cash and cash equivalents	$ 201	$ 175
Accounts receivable	1,720	1,510
Merchandise inventories	3,031	3,018
Other	488	252
Total Current Assets	5,440	4,955
Property and Equipment		
Land	1,557	1,496
Buildings and improvements	5,943	5,812
Fixtures and equipment	2,652	2,482
Construction-in-progress	317	434
Accumulated depreciation	(3,002)	(2,930)
Property and Equipment, net	7,467	7,294
Other	482	321
Total Assets	$13,389	$12,570
Liabilities and Shareholders' Investment		
Current Liabilities		
Accounts payable	$ 2,528	$ 2,247
Accrued liabilities	1,168	957
Income taxes payable	182	137
Current portion of long-term debt and notes payable	233	182
Total Current Liabilities	4,111	3,523
Long-Term Debt	4,808	4,959
Deferred Income Taxes and Other	630	623
Convertible Preferred Stock, net	50	62
Shareholders' Investment		
Convertible preferred stock	271	257
Common stock	72	72
Additional paid-in capital	146	110
Retained earnings	3,348	3,044
Loan to ESOP	(47)	(80)
Total Shareholders' Investment	3,790	3,403
Total Liabilities and Shareholders' Investment	$13,389	$12,570

See Notes to Consolidated Financial Statements on pages 23 – 34.

Cash Equivalents

Cash equivalents represent short-term investments with a maturity of three months or less from the time of purchase.

Accounts Receivable

Accounts receivable are written off when the required payments have not been received for six consecutive months. Prior to an account being written-off, an allowance is established for potential losses. The allowance for doubtful accounts was $119 million and $69 million at year-end 1996 and 1995, respectively.

In September 1995, the Corporation, through its special-purpose subsidiary, Dayton Hudson Receivables Corporation (DHRC), entered into a securitization transaction under which it transfers, on an ongoing basis, substantially all of its credit card receivables to a trust in return for certificates representing undivided interests in the trust's assets. At that time DHRC sold to the public $400 million of three-year Class A certificates, with a fixed rate of 6.1 percent, backed by the credit card receivables. The issuance of such certificates was recorded as a sale and no gain or loss was recorded. DHRC retained a $123 million issue of subordinated Class B asset-backed certificates, which is classified in accounts receivable. Retailers National Bank (the Bank), a national credit card bank and wholly owned subsidiary of the Corporation, holds a 5 percent undivided interest in the accounts receivable of the trust. DHRC owns the remaining undivided interest in the trust's assets. The Bank continues to generate and service all receivables for the trust. The undivided interests in the accounts receivable held by DHRC and the Bank, as well as related income and expenses, are reflected in each operating division's assets and operating results.

During 1996, we adopted Statement of Financial Accounting Standards (SFAS) No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," which provides standards for distinguishing transfers of financial assets that are sales from transfers that are secured borrowings and prescribes the measurement of assets obtained and liabilities incurred in a sale. SFAS No. 125, effective for transfers of accounts receivable after December 31, 1996, was not material to the financial statements in 1996 and is not expected to be material going forward.

Inventories

Inventories and the related cost of sales are accounted for by the retail accounting method using the last-in, first-out (LIFO) basis and are stated at the lower of LIFO cost or market. The LIFO reserve was $86 million and $77 million at February 1, 1997 and February 3, 1996, respectively.

Property and Equipment

Property and equipment are recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over estimated useful lives. Buildings and improvements are depreciated over eight to 55 years. Furniture and fixtures are depreciated over three to eight years. Accelerated depreciation methods are generally used for income tax purposes.

In first quarter 1996, we adopted SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." The impairment loss recorded upon adoption was not material to the financial statements.

Accounts Payable

Outstanding drafts included in accounts payable were $414 million and $344 million at year-end 1996 and 1995, respectively.

Leases

Assets held under capital leases are included in property and equipment, and are charged to depreciation and interest over the life of the lease. Operating leases are not capitalized and lease rentals are expensed. Rent expense on buildings, classified in buying and occupancy, includes percentage rents that are based on a percentage of retail sales over stated levels. Total rent expense was $146 million, $144 million and $123 million in 1996, 1995 and 1994, respectively. Most of the long-term leases include options to renew, with terms varying from five to 30 years. Certain leases also include options to purchase the property.

Future minimum lease payments required under noncancelable lease agreements existing at February 1, 1997 were:

Future Minimum Leases Payments (Millions of Dollars)	Operating Leases	Capital Leases
1997	$ 117	$ 20
1998	111	19
1999	103	19
2000	80	18
2001	77	18
After 2001	658	146
Total future minimum lease payments	1,146	240
Less: Interest*	(500)	(114)
Present value of minimum lease payments	$ 646	$ 126**

* Calculated using the interest rate at inception for each lease (the weighted average interest rate was 9.4 percent.)

** Includes current portion of $7 million.

Commitments and Contingencies

Commitments for the purchase, construction, lease or remodeling of real estate, facilities and equipment were approximately $261 million at February 1, 1997. The Corporation is exposed to claims and litigation arising out of the ordinary course of business. Management, after consulting with legal counsel, believes that the currently identified claims and litigation will not have a material adverse effect on our results of operations or its financial condition taken as a whole.

Consolidated Statements of Cash Flows

(Millions of Dollars)	1996	1995	1994
Operating Activities			
Net earnings before extraordinary charge	**$ 474**	$ 311	$ 434
Reconciliation to cash flow:			
Depreciation and amortization	**650**	594	548
Deferred tax provision	**(107)**	(6)	(41)
Other noncash items affecting earnings	**11**	52	38
Changes in operating accounts providing/(requiring) cash:			
Accounts receivable	**(210)**	(100)	(274)
Sale of securitized accounts receivable	**–**	400	
Merchandise inventories	**(13)**	(241)	(280)
Accounts payable	**281**	286	307
Accrued liabilities	**275**	(88)	147
Income taxes payable	**55**	(38)	30
Other	**42**	(9)	(17)
Cash Flow Provided by Operations	**1,458**	1,161	892
Investing Activities			
Expenditures for property and equipment	**(1,301)**	(1,522)	(1,095)
Proceeds from disposals of property and equipment	**103**	17	89
Cash Flow Required for Investing Activities	**(1,198)**	(1,505)	(1,006)
Net Financing Sources/(Requirements)	**260**	(344)	(114)
Financing Activities			
(Decrease)/increase in notes payable, net	**(416)**	501	247
Additions to long-term debt	**700**	150	–
Reductions of long-term debt	**(414)**	(210)	(199)
Principal payments received on loan to ESOP	**40**	57	58
Dividends paid	**(155)**	(148)	(144)
Other	**11**	22	(22)
Cash Flow (Used for)/Provided by Financing Activities	**(234)**	372	(60)
Net Increase/(Decrease) in Cash and Cash Equivalents	**26**	28	(174)
Cash and Cash Equivalents at Beginning of Year	**175**	147	321
Cash and Cash Equivalents at End of Year	**$ 201**	$ 175	$ 147

Amounts in these statements are presented on a cash basis and therefore may differ from those shown in other sections of this Annual Report. Cash paid for income taxes was $352 million, $229 million and $292 million for 1996, 1995 and 1994, respectively. Cash paid for interest (including interest capitalized) was $434 million, $451 million and $431 million for 1996, 1995 and 1994, respectively.

See Notes to Consolidated Financial Statements on pages 23-34.

Lines of Credit

At February 1, 1997, two committed credit agreements totaling $1.6 billion were available from various lending institutions at specified rates. There were no balances outstanding at any time during the year related to these agreements.

Long-Term Debt and Notes Payable

At February 1, 1997, $532 million of notes payable were outstanding, $432 million of which were classified as long-term debt as they were supported by the Corporation's $800 million committed credit agreement that expires in the year 2001. The average amount of notes payable outstanding during 1996 was $877 million at a weighted-average interest rate of 5.6 percent.

During 1996, the Dayton Hudson Credit Card Master Trust issued, for cash, a $300 million Series 1996-1 Class A Variable Funding Certificate backed by credit card receivables. The outstanding Certificate amount fluctuates based on financing needs and was $100 million at February 1, 1997. The Class A Certificate is debt of DHRC and is classified in the current portion of long-term debt and notes payable in the Corporation's Consolidated Statement of Financial Position.

In 1996, we issued the following long-term debt: $200 million at 6.8 percent maturing in 2001; $300 million at 6.4 percent, maturing in 2003; and $200 million at 7.5 percent, maturing in 2006. The proceeds from these issuances were used for general corporate purposes.

Also during 1996, we repurchased for $340 million the following sinking fund debentures: $112 million of 9.5 percent, due in 2016; $148 million of 9.25 percent, due in 2016; and $65 million of 9.875 percent, due in 2017. An extraordinary charge, net of tax, of $11 million ($.05 per share) for early extinguishment of debt was recorded related to these transactions.

At year-end the debt portfolio was as follows:

Long-Term Debt and Notes Payable (Millions of Dollars)	**February 1, 1997** Rate*	Balance	February 3, 1996 Rate*	Balance
Notes payable	**5.6%**	**$ 532**	5.6%	$ 948
Notes and debentures:				
Due 1996-2000	**9.3**	**836**	8.9	878
Due 2001-2005	**7.6**	**1,149**	8.4	649
Due 2006-2010	**9.0**	**648**	9.7	448
Due 2011-2015	**8.9**	**379**	8.9	379
Due 2016-2020	**9.6**	**436**	9.6	787
Due 2021-2023	**8.5**	**935**	8.5	935
Total notes payable, notes and debentures**		**4,915**		5,024
Capital lease obligations		**126**		117
Less: current portion		**(233)**		(182)
Long-term debt and notes payable		**$4,808**		$4,959

* Reflects the weighted-average stated interest rate as of year end.

** The estimated fair value of total notes payable, notes and debentures, using discounted cash flow analysis based on the Corporation's incremental interest rates for similar types of financial instruments, was $5,246 million at February 1, 1997 and $5,460 at February 3, 1996.

Required principal payments on long-term debt and notes payable over the next five years, excluding capital lease obligations, are $226 million in 1997, $170 million in 1998, $152 million in 1999, $388 million in 2000 and $795 million in 2001.

Consolidated Statements of Shareholders' Investment

(Millions of Dollars, Except Per Share Data)	Convertible Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Loan to ESOP	Total
January 29, 1994	$273	$72	$ 73	$2,592	$(161)	$2,849
Consolidated net earnings	—	—	—	434	—	434
Dividends declared	—	—	—	(144)	—	(144)
Tax benefit on unallocated preferred stock dividends	—	—	6	—	—	6
Conversion of preferred stock and other	4	—	7	—	—	11
Net reduction in loan to ESOP	—	—	—	—	34	34
Stock option activity	—	—	3	—	—	3
January 28, 1995	277	72	89	2,882	(127)	3,193
Consolidated net earnings	—	—	—	311	—	311
Dividends declared	—	—	—	(149)	—	(149)
Tax benefit on unallocated preferred stock dividends	—	—	5	—	—	5
Conversion of preferred stock and other	(20)	—	11	—	—	(9)
Net reduction in loan to ESOP	—	—	—	—	47	47
Stock option activity	—	—	5	—	—	5
February 3, 1996	257	72	110	3,044	(80)	3,403
Consolidated net earnings	—	—	—	463	—	463
Dividends declared	—	—	—	(159)	—	(159)
Tax benefit on unallocated preferred stock dividends	—	—	7	—	—	7
Conversion of preferred stock and other	14	—	16	—	—	30
Net reduction in loan to ESOP	—	—	—	—	33	33
Stock option activity	—	—	13	—	—	13
February 1, 1997	**$271**	**$72**	**$146**	**$3,348**	**$ (47)**	**$3,790**

Common Stock

Authorized 1,500,000,000 shares, $.3333 par value; 217,205,226 shares issued and outstanding at February 1, 1997; 215,894,520 shares issued and outstanding at February 3, 1996.

Preferred Stock

Authorized 5,000,000 shares; Series B ESOP Convertible Preferred Stock $.01 par value, 382,921 shares issued and outstanding at February 1, 1997; 401,494 shares issued and outstanding at February 3, 1996. Each share converts into 30 shares of the Corporation's common stock, has voting rights equal to the equivalent number of common shares and is entitled to cumulative annual dividends of $56.20. Under certain circumstances, the shares may be redeemed at the election of the Corporation or the ESOP.

Junior Preferred Stock Rights

In September 1996, the Corporation declared a distribution of preferred share purchase rights. Terms of the plan provide for a distribution of one preferred share purchase right for each outstanding share of the Corporation's common stock. Each right will entitle shareholders to buy one three-hundredth of a share of a new series of junior participating preferred stock at an exercise price of $100, subject to adjustment. The rights will be exercisable only if a person or group acquires ownership of 20 percent or more of the Corporation's common stock or announces a tender offer to acquire 30 percent or more of the common stock.

See Notes to Consolidated Financial Statements on pages 23-34.

Stock Option Plan

The Corporation has a stock option plan for key employees. Options have included Incentive Stock Options, Non-Qualified Stock Options or a combination of the two. A majority of the options contain a vesting schedule so that 12 months after the grant date, 25 percent of the options granted become exercisable, with another 25 percent vesting after each succeeding 12 months. These options are cumulatively exercisable and expire no later than ten years after the date of the grant. In 1995, we adopted a non-qualified stock option plan for nonemployee members of the Board of Directors. Such options become exercisable after one year and have a ten year term. The 1997 grant was moved up to January 1997 and fell within 1996, resulting in two grants in the same fiscal year. The typical frequency of stock option grants is once each year.

The Corporation has had a performance share and restricted stock award plan for key employees. Performance shares are earned to the extent certain financial goals are met over a four-year period. Performance shares and restricted stock awards are placed in escrow until retirement, subject to certain further restrictions, and result in compensation expense.

Options, Performance Shares and Restricted Stock Awards Outstanding

	Options					
	Shares Outstanding		Shares Exercisable			
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price	Performance Shares	Restricted Stock Awards
January 29, 1994	3,818,463	$19.89	1,963,872	$17.35	743,067	91,482
Granted	602,658	25.39				
Cancelled	(208,614)	22.54				
Exercised	(234,507)	13.98				
January 28, 1995	3,978,000	20.93	2,513,169	18.87	743,868	130,686
Granted	1,492,377	23.50				
Cancelled	(104,190)	23.93				
Exercised	(382,758)	13.96				
February 3, 1996	4,983,429	22.17	2,685,945	20.59	803,703	179,619
Granted	3,269,923	32.17				
Cancelled	(72,630)	24.37				
Exercised	(875,580)	19.35				
February 1, 1997	**7,305,142**	**$26.97**	**2,391,183**	**$21.77**	**632,028**	**155,308**

As of February 1, 1997, there were 935,639 options outstanding with exercise prices between $10.08 and $19.94, 1,890,109 options with exercise prices between $20.85 and $24.83, 2,594,160 options with exercise prices between $25.04 and $28.35 and 1,885,234 options with an exercise price of $37.38. As of February 1, 1997, outstanding options had a weighted-average remaining contractual life of 7.5 years. The number of shares of unissued common stock reserved for future grants under the stock option plans were 4,564,547 at February 1, 1997 and 7,631,415 at February 3, 1996.

The Corporation applies Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees", and related Interpretations to account for its stock option plans. Under APB No. 25, no compensation expense is recognized if the exercise price of the Corporation's employee stock options equals the market price on the grant date. SFAS No. 123, "Accounting for Stock-Based Compensation" requires that the fair value of options granted during 1996 and 1995 and the pro forma impact on earnings to be disclosed when material. The pro forma impact was not material for 1996 and 1995.

Pension Plans

The Corporation has three defined benefit pension plans that cover all employees who meet certain requirements of age, length of service and hours worked per year. Benefits are provided based upon years of service and the employee's compensation. Contributions to the pension plans, which are made solely by the Corporation, are determined by an outside actuarial firm. To compute net pension cost, the actuarial firm estimates the total benefits that will ultimately be paid to eligible employees and then allocates these costs to service periods. The period over which unrecognized pension costs and credits are amortized, including prior service costs and actuarial gains and losses, is based on the remaining service period for those employees expected to receive pension benefits.

Net Pension Expense (Millions of Dollars)	1996	1995	1994
Service cost-benefits earned during the period	**$ 26**	$ 21	$ 25
Interest cost on projected benefit obligation	**37**	35	33
Return on assets-current	**(78)**	(87)	(10)
-deferred	**36**	47	(26)
Total	**$ 21**	$ 16	$ 22

Actuarial Assumptions	1996	1995	1994
Discount rate	**7¼%**	7½%	8½%
Expected long-term rate of return on plans' assets	**9**	9	9
Average assumed rate of compensation increase	**4¼**	4½	5½

Funded Status	December 31, 1996	1995
Actuarial present value of		
Vested benefit obligation	**$428**	$412
Accumulated benefit obligation	**455**	438
Projected benefit obligation	**523**	503
Fair market value of plans' assets*	**587**	518
Plans' assets in excess of projected benefit obligation	**64**	15
Unrecognized prior service cost	**2**	2
Unrecognized net actuarial (gain)/loss	**(21)**	21
Prepaid pension assets	**$ 45**	$ 38

* Plans' assets consist primarily of equity and fixed-income securities.

Employee Stock Ownership Plan

The Corporation sponsors a defined contribution employee benefit plan. Employees who meet certain eligibility requirements may participate by investing up to 15 percent of their compensation. We match 100 percent of each employee's contribution up to 5 percent of each participant's total compensation. Our contribution to the plan is invested in the ESOP. It is anticipated that all available ESOP shares will be allocated to participants by early 1998. At that time, management intends to provide new ESOP shares for funding the employer match.

In 1989, we loaned $379 million to the ESOP at a 9 percent interest rate. Proceeds from the loan were used by the ESOP to purchase 438,353 shares of Series B ESOP Convertible Preferred Stock of the Corporation. The original issue value of the ESOP preferred stock of $864.60 per share is guaranteed by the Corporation.

Our contributions to the ESOP, plus dividends paid on all preferred stock held by the ESOP, are used to repay the loan principal and interest. Cash contributed by us to the ESOP was $23 million in 1996, $45 million in 1995 and $50 million in 1994. Dividends earned on shares held by the ESOP were $22 million in 1996, $23 million in 1995 and $24 million in 1994. The dividends on allocated preferred stock are paid to participants' accounts in additional shares of preferred stock. Benefits expense, calculated based on the shares allocated method, was $31 million in 1996, $39 million in 1995 and $33 million in 1994.

Upon a participant's termination, we are required to exchange at fair value each share of preferred stock for 30 shares of common stock and cash, if any. At February 1, 1997, 319,527 shares of the ESOP preferred stock were allocated to participants and had a fair value of $411 million.

The convertible preferred stock and related loan to ESOP are classified as Shareholders' Investment to the extent the preferred stock is permanent equity. The remaining convertible preferred stock of $60 million, net of the related loan to ESOP of $10 million at February 1, 1997, represents our maximum cash obligation at year-end, measured by the market value difference between the preferred stock and common stock, and is excluded from Shareholders' Investment.

Postretirement Health Care Benefits

Employees eligible for retirement become eligible for certain health care benefits if they meet minimum age and service requirements, and agree to contribute a portion of the cost. We have the right to modify or terminate these benefits.

Accumulated Postretirement Benefit Obligation (Millions of Dollars)	December 31 1996	1995
Retirees	**$ 48**	$ 51
Fully eligible active plan participants	**18**	18
Other active plan participants	**10**	11
Prior service cost	**(4)**	(4)
Unrecognized gain	**31**	27
Total	**$103**	$103

Net Periodic Cost	1996	1995	1994
Service cost—benefits earned during the period	**$1**	$1	$2
Interest cost on accumulated benefits	**5**	5	6
Total	**$6**	$6	$8

An increase in the cost of covered health care benefits of 7 percent is assumed for fiscal 1997. The rate is assumed to decrease to 6 percent in the year 2000 and remain at that level thereafter. The health care cost trend rate assumption has a significant effect on the amounts reported. For example, a 1 percent increase in the health care trend rate would increase the accumulated postretirement benefit obligation by $5 million at February 1, 1997 and the net periodic cost by $.4 million for the year. The discount rate used in determining the accumulated postretirement benefit obligation was 7¼ percent for 1996, 7½ percent for 1995 and 8½ percent for 1994.

Quarterly Results (Unaudited)

The same accounting policies are followed in preparing quarterly financial data as are followed in preparing annual data. Costs directly associated with revenues, such as cost of goods sold and percentage rent on leased stores, are allocated based on revenues. Certain other costs not directly associated with revenues, such as benefit plan expenses and real estate taxes, are allocated evenly throughout the year.

The table below summarizes results by quarter for 1996 and 1995:

(Millions of Dollars, except Per Share Data)	First Quarter		Second Quarter		Third Quarter		Fourth Quarter		Total Year	
	1996	1995	**1996**	1995	**1996**	1995	**1996**	1995	**1996**	1995
Revenues	**$5,380**	$4,757	**$5,751**	$5,236	**$6,073**	$5,573	**$8,167**	$7,950	**$25,371**	$23,516
Gross Profit (a)	**$1,431**	$1,253	**$1,554**	$1,340	**$1,621**	$1,460	**$2,137**	$1,936	**$ 6,743**	$ 5,989
Net Earnings Before Extraordinary Charge (b)	**$ 42**	$ 11	**$ 101**	$ 28	**$ 116**	$ 44	**$ 215**	$ 228	**$ 474**	$ 311
Net Earnings (b) (c)	**$ 41**	$ 11	**$ 101**	$ 28	**$ 107**	$ 44	**$ 214**	$ 228	**$ 463**	$ 311
Primary Earnings Per Share (b) (c) (d)	**$ .17**	$ .03	**$ .44**	$ .11	**$ .47**	$ .18	**$ .95**	$ 1.03	**$ 2.02**	$ 1.34
Fully Diluted Earnings Per Share (b) (c) (d)	**$ .16**	$ .03	**$ .42**	$ .11	**$ .45**	$ .17	**$ .91**	$ .98	**$ 1.95**	$ 1.30
Dividends Declared Per Share (d)	**$ .15**	$ .15	**$ .16**	$ .15	**$ .16**	$ .15	**$ .16**	$ .15	**$ .63**	$ .59
Common Stock Price (e)										
High	**$ 32⅝**	$ 24⅞	**$ 36⅝**	$ 26¼	**$ 36**	$ 26½	**$ 39⅞**	$ 25⅞	**$ 39⅞**	$ 26½
Low	**24½**	21⅞	**29⅛**	21½	**30¼**	23¼	**34⅝**	22⅛	**24½**	21½

(a) Gross profit is revenues less cost of retail sales, buying and occupancy. The LIFO provision, included in gross profit, is adjusted each quarter for estimated changes in year-end inventory levels, markup rates and internally generated retail price indices. A final adjustment is recorded in the fourth quarter for the difference between the prior quarters' estimates and the actual total year LIFO provision.

(b) Fourth quarter and total year 1996 net earnings before extraordinary charges and earnings per share reflect a pre-tax real estate repositioning charge of $134 million ($81 million after tax), or $.35 per primary and fully diluted share.

(c) In 1996, first, third and fourth quarter net earnings reflect extraordinary charges related to the purchase and redemption of debt, net of tax, of $1 million, $9 million and $1 million, respectively, or $.00, $.04 and $.01 per primary and fully diluted share.

(d) Per share amounts are computed independently for each of the quarters presented. The sum of the quarters may not equal the total year amount due to the impact of changes in average quarterly shares outstanding and/or rounding caused by the 1996 three-for-one common stock split.

(e) The Corporation's common stock is listed on the New York Stock Exchange and Pacific Stock Exchange. At March 21, 1997 there were 10,958 shareholders of record and the common stock price closed at $42⅝ per share.

Report of Independent Auditors

Board of Directors and Shareholders
Dayton Hudson Corporation

We have audited the accompanying consolidated statements of financial position of Dayton Hudson Corporation and subsidiaries as of February 1, 1997 and February 3, 1996 and the related consolidated results of operations, cash flows and shareholders' investment for each of the three years in the period ended February 1, 1997. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Dayton Hudson Corporation and subsidiaries at February 1, 1997 and February 3, 1996 and the consolidated results of their operations and their cash flows for each of the three years in the period ended February 1, 1997 in conformity with generally accepted accounting principles.

Ernst + Young LLP

Ernst & Young LLP
Minneapolis, Minnesota
March 3, 1997

Report of Management

Management is responsible for the consistency, integrity and presentation of the information in the Annual Report. The consolidated financial statements and other information presented in this Annual Report have been prepared in accordance with generally accepted accounting principles and include necessary judgments and estimates by management.

To fulfill our responsibility, we maintain comprehensive systems of internal control designed to provide reasonable assurance that assets are safeguarded and transactions are executed in accordance with established procedures. The concept of reasonable assurance is based upon a recognition that the cost of the controls should not exceed the benefits derived. We believe our systems of internal control provide this reasonable assurance.

The Board of Directors exercises its oversight role with respect to the Corporation's systems of internal control primarily through its Audit Committee, which is comprised of five independent directors. The Committee oversees the Corporation's systems of internal control, accounting practices, financial reporting and audits to ensure their quality, integrity and objectivity are sufficient to protect shareholders' investments. The Committee's report appears on this page.

In addition, our consolidated financial statements have been audited by Ernst & Young LLP, independent auditors, whose report also appears on this page. As a part of its audit, Ernst & Young LLP develops and maintains an understanding of the Corporation's internal accounting controls and conducts such tests and employs such procedures as it considers necessary to render its opinion on the consolidated financial statements. Their report expresses an opinion as to the fair presentation, in all material respects, of the consolidated financial statements and is based on independent audits made in accordance with generally accepted auditing standards.

Robert J. Ulrich
Chairman of the Board and
Chief Executive Officer

Douglas A. Scovanner
Senior Vice President and
Chief Financial Officer

JoAnn Bogdan
Controller and Chief Accounting Officer

March 3, 1997

Report of Audit Committee

The Audit Committee met three times during fiscal 1996 to review the overall audit scope, plans for internal and independent audits, the Corporation's systems of internal control, emerging accounting issues, officer and director expenses, audit fees and retirement plans. The Committee also met individually with the internal auditors and independent auditors, without management present, to discuss the results of their audits. The Committee encourages the internal and independent auditors to communicate closely with the Committee.

Audit Committee results were reported to the full Board of Directors, and the Corporation's annual financial statements were reviewed and approved by the Board of Directors before issuance. The Audit Committee also recommended to the Board of Directors that the independent auditors be reappointed for fiscal 1997, subject to the approval of the shareholders at the annual meeting.

March 3, 1997

Summary Financial and Operating Data

(Millions of Dollars, Except Per Share Data)	1996	1995(a)	1994	1993	1992	1991
Income Statement Data						
Revenues	**$ 25,371**	23,516	21,311	19,233	17,927	16,115
Cost of retail sales, buying and occupancy	**$ 18,628**	17,527	15,636	14,164	13,129	11,751
Selling, publicity and administrative	**$ 4,289**	4,043	3,614	3,158	2,961	2,784
Depreciation and amortization	**$ 650**	594	548	515	476	427
Interest expense, net	**$ 442**	442	426	446	437	398
Earnings before income taxes and extraordinary charge (b)	**$ 783**	501	714	607	611	472
Income taxes	**$ 309**	190	280	232	228	171
Net earnings (b)(c)	**$ 463**	311	434	375	383	301
Financial Position Data						
Working capital	**$ 1,329**	1,432	1,569	1,436	1,450	1,452
Property and equipment, net	**$ 7,467**	7,294	6,385	5,947	5,563	5,102
Total assets	**$ 13,389**	12,570	11,697	10,778	10,337	9,485
Long-term debt	**$ 4,808**	4,959	4,488	4,279	4,330	4,227
Shareholders' investment	**$ 3,790**	3,403	3,193	2,849	2,566	2,279
Per Common Share Data						
Fully diluted earnings per share (b)(c)	**$ 1.95**	1.30	1.84	1.59	1.61	1.24
Cash dividend declared	**$ .63**	.59	.56	.54	.51	.49
Market price—high	**$ 39⅞**	26½	28⅝	27⅞	26⅜	26¾
Market price—low	**$ 24½**	21½	21¼	21⅛	19⅝	18¼
Market price—year-end close	**$ 37⅝**	25	23	22	25⅞	21¼
Common shareholders' investment	**$ 16.42**	14.94	14.15	12.76	11.61	10.44
Other Data						
Average common shares outstanding (millions)	**216.7**	215.5	214.8	214.5	213.9	213.6
Fully diluted average common shares outstanding (millions)	**230.6**	229.2	228.9	228.3	227.7	227.7
Capital expenditures	**$ 1,301**	1,522	1,095	978	938	1,016
Number of Stores: Target	**736**	670	611	554	506	463
Mervyn's	**300**	295	286	276	265	245
DSD	**65**	64	63	63	63	62
Total stores	**1,101**	1,029	960	893	834	770
Total retail square footage (thousands)	**117,989**	109,091	101,163	93,947	87,362	80,309
Number of employees	**218,000**	214,000	194,000	174,000	170,000	168,000

The Summary Financial and Operating Data should be read in conjunction with the Notes to Consolidated Financial Statements on pages 23–34. Per share amounts and shares outstanding for 1995 and earlier are restated to reflect a three-for-one Common Stock split effective July 17, 1996.

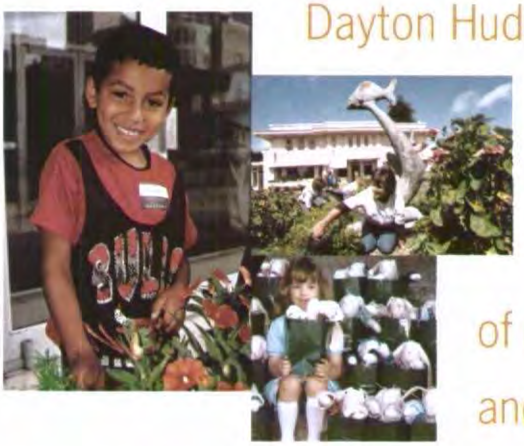
(a) Consisted of 53 weeks.

(b) 1996 includes a pre-tax real estate repositioning charge of $134 million ($81 million after-tax), or $.35 per share.

(c) 1996 includes an extraordinary charge, net of tax, of $11 million, or $.05 per share, related to purchase and redemption of debt.

Helping our Communities

In 1996, Dayton Hudson and its employees celebrated 50 years of investing 5 percent of our federally taxable income in our store communities. Since 1946, we have made contributions of more than $350 million in our communities and have helped make a difference in many people's lives. To mark the 50-year anniversary, our stores throughout the country completed various community service projects as part of our "50 Acts of Giving" celebration.



In 1996, the giving budget for our three operating divisions and the Dayton Hudson Foundation totaled more than $23 million, which included $2.6 million in corporate contributions to more than 300 United Way organizations in 39 states. Contributions by employees added another $10.5 million, bringing total 1996 contributions to the United Way to $13.1 million.

Our divisions also support many special programs.

In 1996, Target entered into a partnership with St. Jude Children's Research Hospital and is contributing more than $3 million to construct "Target House," a housing unit for the families of St. Jude patients. During 1996, Target also signed on as the lead sponsor to help restore one of the nation's oldest landmarks — the Washington Monument — by guaranteeing $1 million to the National Park Service.

Mervyn's teamed up with the Women's Sports Foundation in 1996 to establish a college scholarship fund for high school senior girls. And for the fourth year, Mervyn's partnered with local nonprofit organizations to fund ChildSpree, which provided 12,000 needy children with school clothing and supplies.

The Department Store Division continued to support arts in education initiatives in 1996, including a Minnesota effort to integrate arts programming into all curriculum areas at 20 public schools. In Detroit, Hudson's supports the Arts Centered Education program. And Marshall Field's continues to fund the Chicago Arts Partnerships in Education, designed to improve education at the city's public schools.

After 50 years we remain committed to investing in our communities.

Directors and Management

Directors

Livio D. DeSimone, 60
Chairman and
Chief Executive Officer,
3M
(diversified manufacturer)
(1) (2) (5) (6)

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Chairman and
Chief Executive Officer,
PepsiCo, Inc.
(domestic and international beverage and food company)
(1) (3) (5)

William W. George, 54
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Chief Executive Officer,
Medtronic, Inc.
(therapeutic medical device company) (1) (2) (3) (4)

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Vice Chairman,
Executive Committee,
Dayton Hudson Corporation
President and
Chief Executive Officer,
TENNANT
(industrial equipment manufacturer) (1) (3) (5) (6)

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Chairman and
Chief Executive Officer,
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(1) (2) (5)

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Chief Executive Officer,
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(1) (4) (5)

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Chief Executive Officer,
Norwest Corporation
(banking and financial services company)(1)

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Chief Executive Officer
General Mills, Inc.
(consumer foods company)
(1) (3) (5) (6)

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Chief Executive Officer,
US WEST Communications Group, Inc.
(telecommunication services company (1) (3) (4)

Robert J. Ulrich, 53
Chairman and
Chief Executive Officer,
Dayton Hudson Corporation
and Target (1)

John R. Walter, 50
President and
Chief Operating Officer,
AT&T Corporation
(communications and information services company) (1) (2) (4) (6)

(1) Executive Committee
(2) Audit Committee
(3) Compensation Committee
(4) Corporate Responsibility Committee
(5) Finance Committee
(6) Nominating Committee

Officers

Robert J. Ulrich*+, 53
Chairman and Chief Executive Officer,
Dayton Hudson Corporation
and Target

Kenneth B. Woodrow*+, 52
President, Target

Larry V. Gilpin*+, 53
Executive Vice President,
Team, Guest and Community Relations, Target

Robert G. McMahon*+, 48
Senior Vice President,
Property Development,
Target

John E. Pellegrene*+, 60
Executive Vice President,
Marketing, Target

Gregg W. Steinhafel*+, 42
Executive Vice President,
Merchandising, Target

Bart Butzer*+, 41
President, Mervyn's

Shannon M. Buscho*+, 45
Executive Vice President,
Stores, Mervyn's

Linda L. Ahlers*+, 46
President,
Department Store Division

James T. Hale*+, 56
Senior Vice President,
General Counsel and
Secretary,
Dayton Hudson Corporation

Douglas A. Scovanner*+, 41
Senior Vice President and
Chief Financial Officer,
Dayton Hudson Corporation

Vivian M. Stephenson*+, 59
Senior Vice President and
Chief Information Officer,
Dayton Hudson Corporation

Gerald L. Storch*+, 40
Senior Vice President,
Credit and Strategic Planning,
Dayton Hudson Corporation

Edwin H. Wingate*+, 64
Senior Vice President,
Personnel,
Dayton Hudson Corporation

JoAnn Bogdan*, 44
Controller and Chief
Accounting Officer,
Dayton Hudson Corporation

Gail J. Dorn, 34
Vice President,
Communications,
Dayton Hudson Corporation

L. Fred Hamacher, 58
Vice President,
Compensation and Benefits,
Dayton Hudson Corporation

William P. Hise, 60
Assistant Secretary,
Dayton Hudson Corporation

Stephen C. Kowalke, 39
Vice President and Treasurer,
Dayton Hudson Corporation

Jack N. Reif, 49
Assistant Treasurer,
Dayton Hudson Corporation

Sara J. Ross, 38
Assistant Treasurer,
Dayton Hudson Corporation

* Executive Officer
\+ Corporate Operating Committee Member

Dayton Hudson Corporation
Corporate Offices: 777 Nicollet Mall
Minneapolis, Minnesota 55402
(612)370-6948

Annual Meeting

The Annual Meeting of Shareholders is scheduled for May 21, 1997, at 9:30 a.m. CDT at The Children's Theatre, 2400 Third Avenue South, Minneapolis, Minnesota.

Shareholder Information

Quarterly and annual shareholder information, including the Form 10-Q and Form 10-K Annual Report, which are filed with the Securities and Exchange Commission, is available at no charge to shareholders. To obtain copies of these materials, you may call 612-370-6736 or write to: Director, Investor Relations, Dayton Hudson Corporation, 777 Nicollet Mall, Minneapolis, Minnesota 55402.

Dividend Reinvestment Plan

The dividend reinvestment plan is a convenient way for Dayton Hudson shareholders to acquire additional shares of the Corporation's common stock through automatic dividend reinvestment or voluntary cash purchase. All registered holders of Dayton Hudson common stock may participate. For more information, write to: First Chicago Trust Company of New York, P.O. Box 2500, Jersey City, NJ 07303-2500, or call 1-800-317-4445.

Transfer Agent, Registrar and Dividend Disbursing Agent

First Chicago Trust Company of New York

Trustee, Employee Savings (401k) and Pension Plans

State Street Bank and Trust Company

Stock Exchange Listings

(Trading symbol DH)
New York Stock Exchange and
Pacific Stock Exchange

Shareholder Assistance

For assistance regarding individual stock records, lost certificates, name or address changes, dividend or tax questions, write to: First Chicago Trust Company of New York, P. O. Box 2500, Jersey City, NJ 07303-2500, or call 1-800-317-4445.

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